

ALBERTA ENERGY AND UTILITIES BOARD

Calgary, Alberta

**ATCO GAS SOUTH
GCRR METHODOLOGY AND GAS RATE
UNBUNDLING - COMPLIANCE FILING**

**Decision 2002-034
Application Nos. 1257245 and 1257515
File Nos. 5626-52 and 5626-53**

1 INTRODUCTION

On October 30, 2001, the Alberta Energy and Utilities Board (the Board) issued Decision 2001-75 setting out its findings with respect to the methodology for managing utility gas supply portfolios and determining gas cost recovery rates (GCRR). In the Decision, the Board dealt specifically with its expectations for determination of the GCRR and gas rate unbundling on a going forward basis. In particular, the Board directed the utilities to administer and adjust the GCRR on a monthly basis, commencing April 1, 2002.

In the Decision, the Board directed natural gas utilities to file by February 1, 2002:

- a mock GCRR for the February 2002 period, for review by the Board and interested parties This mock GCRR was to provide an example of the methodology and format for the filing of actual GCRRs, using values from the month of February 2002 for exposition purposes only.
- a proposed exit notice provision for their regulated gas rates that was as short as could be facilitated administratively; and
- interim delivery rates, based on the transfer of direct gas supply costs from utility cost of service to the GCRR.

On February 15, 2002, ATCO Gas South (ATCO or the Company) filed a mock GCRR Application (the Mock Application) for the February 2002 period requesting Board approval of the mechanisms used to derive proposed GCRR rates. On February 21, 2002, ATCO filed an application (the Delivery Rate Application) for delivery rates on an interim refundable basis effective April 1, 2002. In the Delivery Rate Application, ATCO also requested approval of proposed exit notice provisions.

2 BACKGROUND

On February 8, 2002, the natural gas utilities and interested parties met at the Board's Offices in Edmonton to discuss the mechanisms proposed by the utilities for compliance with the directives in Decision 2001-75. Documentation tabled at the meeting included preliminary proposals for a monthly GCRR process and impact on delivery rates. At the meeting, mediated by a member of Board staff, a target deadline of March 1, 2002 was set for feedback by interested parties

regarding the Mock Application and Delivery Rate Application. The following parties were represented at the meeting:

- ATCO Gas and Pipelines Ltd, ATCO Gas South Division. (ATCO, or the Company)
- AltaGas Utilities Inc. (AltaGas)
- The City of Calgary (Calgary)
- City of Edmonton (Edmonton)
- Municipal Interveners and Urban Municipalities (MI)*
- Public Institutional Consumers Association (PICA)
- Consumers Coalition of Alberta (CCA)
- Alberta Irrigation Projects Association and Energy Uses Association of Alberta (AIPA)*
- Federation of Alberta Gas Co-ops Ltd. and Gas Alberta Inc., and Municipal Gas and Co-op Interveners (FGA)*
- * These intervener groups were jointly represented

The Board received submissions from interested parties including a submission from France Financial Consulting Ltd., representing the interests of Rate 13 customers, and ENMAX Energy Corporation. France Financial Consulting Ltd. had not been involved in earlier discussions with respect to the Mock Application and related adjustments. On March 8, 2002, ATCO filed its final response to the concerns expressed by interested parties.

3 PARTICULARS OF THE APPLICATIONS

3.1 Mock Application

ATCO proposed a GCRB of \$2.252/GJ for February 2002, stating that most of the gas purchases included in the calculation were based on Alberta Energy Company's (AECO) Monthly or Daily mechanisms.

ATCO proposed a Company-Owned Production Rate Rider (COPRR) of \$0.025/GJ (credit rider) for February 2002, stating that deemed purchases included in the calculation are based on the AECO Monthly Index price, and that Company-Owned Production (COP) is based on the forecast royalty cost for February.

ATCO proposed a Company-Owned Storage Rate Rider (COSRR) of \$0.154/GJ (debit rider) for February 2002, stating that Carbon storage injection and withdrawal (deemed purchase) quantities included in the calculation were based on the AECO Monthly Index price.

On February 22, 2002 ATCO filed a revision to the Mock Application to reflect the inclusion of inventory storage carrying costs in the COSRR. Inclusion of carrying costs resulted in a COSRR rate of \$0.184/GJ for February 2002.

3.2 Delivery Rate Application

In the Application, ATCO identified the impact of Decision 2001-75 on delivery rates, and requested approval of the following.

3.2.1 Exit Notice Provisions

ATCO proposed that the exit provisions should be linked to the timeline requirements for preparation of the monthly GCCR. ATCO indicated that, to determine its forecast requirements for an upcoming month, the Company would need to know the number of customers switching to retail service in that month, and the effective date. Accordingly, ATCO proposed a minimum notice requirement of 15 working days prior to that month for all rate classes.

3.2.2 Gas Acquisition Costs

ATCO proposed a reduction to delivery rates of \$0.022/GJ for rate classes 1, 11, 3 and 5 to recognize the transfer of certain costs to the GCCR. The costs, based on forecasts for 2002 as per ATCO's 2001/2002 General Rate Application (GRA), and the unit cost calculation are as follows:

Description	\$000
Gas purchase Costs	500
Portfolio Management	353
Bad Debt	938
DGA Carrying Costs	358
Total Costs	2,149
Throughput TJ	98,284
Delivery Rate Reduction (\$/GJ)	0.022

ATCO indicated that, effective April 1, 2002 the deferred gas account (DGA) would be charged \$179,000 each month (1/12th of \$2,149,000).

3.2.3 Company-Owned Production

ATCO noted that, in accordance with Decision 2001-75, all customer classes would have the COPRR, as determined using the mechanism in the Mock Application, applied to their accounts. As a result, an adjustment to delivery rates is required so that all customers bear their share of COP asset costs. ATCO noted that, currently, the delivery rates for all rate classes, except Rate 13, include COP related costs of \$0.024/GJ, based on the approved 1998 Phase II Cost of Service data. ATCO used the same data to calculate a COP cost of \$0.022/GJ attributable to all rate classes including Rate 13. ATCO indicated that this would result in the introduction of a variable charge of \$0.022/GJ for Rate 13 customers and a reduction of \$0.002/GJ in the delivery rates for all other rate classes.

3.2.4 Carbon Storage

ATCO noted that, in accordance with Decision 2001-75, all customer classes would have the COSRR, as determined using the mechanism in the Mock Application, applied to their accounts. As a result, an adjustment to delivery rates is required so that all customers bear their share of Carbon asset costs. ATCO noted that currently, the delivery rates for all rate classes, except Rate 5 and Rate 13, include carbon related costs of \$0.069/GJ, based on the approved 1998 Phase II Cost of Service data. ATCO argued, however, that the appropriate Carbon related costs should not include carrying costs for natural gas stored and should not reflect the income credit assigned to Carbon. ATCO used the 1998 Phase II data to calculate a Carbon related cost of \$0.125/GJ, exclusive of storage carrying costs and income credit, attributable to all classes including Rates 5 and 13. ATCO indicated that this would result in the introduction of a variable charge of \$0.125/GJ for Rate 5 and Rate 13 customers and an increase of \$0.056/GJ for all other rate classes.

In the Application, ATCO provided a schedule setting out the impact of the above adjustments on existing delivery rates, together with revised Rate Schedules.

As of February 2002, the corresponding COSRR was calculated to be actually in a debit position of \$0.184/GJ.

4 GCRR ISSUES

4.1 Bad Debts/Penalty Revenues

Views of Interested Parties

The FGA submitted that assigning bad debts, but not penalty revenues, to the GCRR represented an inequity in the transition to a properly costed gas supply component. The FGA did not believe that it was just and reasonable to transfer only costs associated with the commodity, or recognize only negative impacts. The FGA noted that, if the supply function were removed from the utility, it might not be unreasonable to expect the penalty revenues to decline in proportion to the impact of that change on the total utility revenue requirement. The FGA submitted that the monthly GCRR and the revised rates to be charged should be revised as necessary to properly reflect those costs and revenues that are directly related to the cost of gas.

The CCA and the MI agreed with the submission of the FGA with respect to penalty revenues.

Views of ATCO

ATCO noted that if a percentage of penalty revenue were applied to the GCRR similar to bad debts, approximately \$2.7 million would be transferred to the GCRR. ATCO pointed out that this would in effect offset the costs to be transferred and would in fact, result in a slight increase to delivery rates and a slight decrease to the GCRR. ATCO proposed that no adjustment be made to the rates effective April 1, 2002, since the net impact is virtually zero if penalty revenue is included.

ATCO noted that certain interested parties have also objected to the methodology proposed for adjustment to delivery rates on the basis that 2002 costs are being used to adjust 1998 rates. ATCO submitted that a decision not to adjust delivery rates at this time, would allow for the detailed review contemplated in the unbundling allocation study directed by the Board in Decision 2001-75.

Views of the Board

The Board agrees with the submissions of interested parties that the adjustment to delivery rates and determination of the monthly GCCR should incorporate the recognition of penalty revenues, and is prepared on its own initiative to vary Decision 2001-75 with respect to this issue. Accordingly, the Board directs ATCO to reflect the appropriate portion of penalty revenues in the determination of the monthly GCCR.

With respect to the adjustment to delivery rates, the Board acknowledges ATCO's position that the net impact is virtually zero if penalty revenue is included in the calculation. However, recognizing the potential for variation of the net impact over time, the Board directs ATCO to reflect the appropriate transfer of direct costs and offsetting revenues from utility cost of service effective April 1, 2002.

4.2 AECO Daily Index

Views of Interested Parties

The FGA referred to the reference provided in the filing to the AECO Monthly and Daily Indices, used in calculation of commodity costs, noting that the Daily Index referenced is the arithmetic average of the daily weighted prices for the month. However, the FGA pointed out that the Canadian Gas Price Reporter (CGPR) for December 2001, which is widely circulated, indicates that the November 2001 Daily Index Price represents the Total Weighted Average of all transactions, including weekend deals. In the FGA's view, although the price reference as applied in the filing is an accurate reporting, it is not as easy to identify, nor as broadly published or widely known as the "Total Weighted Average." The FGA considered it better to reference the most widely known price to limit possible misunderstanding or confusion as to the actual Index prices to be applied in these filings.

The CCA agreed with the submission of the FGA with respect to use of a readily identifiable and established index with broad circulation.

Views of ATCO

ATCO will provide the requested CGPR price benchmark, as proposed by the FGA and CCA when reporting an actual AECO Daily Index price each month in the DGA information package.

Views of the Board

The Board considers that there is merit in the proposal of the FGA and CCA for use of the AECO daily index reference price reported as the "Total Weighted Average" in the CGPR, rather than the daily index calculated based on the arithmetic average of the daily prices for the

month, as proposed by ATCO. The Board notes that ATCO agrees with the interested parties for use of an easily identifiable, broadly published reference price. Accordingly, while the price reference as applied in the filing is an accurate reporting, the Board directs ATCO to use the more readily accessible CGPR “Weighted Average” as the daily AECO reference price in monthly GCRR calculations.

4.3 Need for Additional Information

Views of Interested Parties

The MI noted that the February 15, 2002 filing indicated that there had been a number of changes in royalty costs, storage volumes, forecast gas supply volumes and related costs, from the preliminary drafts tabled at the February 8, 2002 meeting. In the MI’s view, this suggests that the three-month rolling reconciliation period for DGA balances may be too short and that customers should be given a reasonable period to review any reconciliation prior to ultimate finalization. The MI submitted that ATCO should be required to provide full details of subsequent adjustments when a ‘final’ reconciliation is sought.

The MI cited examples from the filing to illustrate changes from the preliminary draft tabled on February 8, 2002, including changes in the mix of monthly and daily supplies, reduction of “deemed purchases” from storage, and anomalies between ATCO Gas South and North in the level of royalty forecasts. The MI submitted that more information is required prior to the April 1, 2002 filing, to facilitate assessment of the proper mix of monthly and daily supplies, to ensure that the reduction in deemed purchases is not indicative of a modeling problem, and to address the apparent anomaly in the royalty cost forecasts.

Calgary submitted that the Mock Application indicates that 64% of monthly purchases could be purchased on a daily basis against the Daily Index. Calgary expressed concern that the current proposed purchase practice understates the volumes that should be purchased under the monthly contracts which will lead to a higher probability of larger DGA balances than would occur under a more balanced practice. Calgary submitted that this was contrary to the objectives of the new Board directed GCRR methodology.

Calgary noted that ATCO is proposing to use 2001/2002 GRA amounts to adjust the existing rates for costs related to “gas management.” Calgary pointed out that these costs are not embedded in the 1998 approved rates, and expressed concern with mixing data from different years. Calgary submitted that existing rates should only be adjusted for costs included in those rates. Calgary expressed the same concern with respect to the determination of monthly carrying costs of storage inventory.

Calgary noted ATCO’s position that the Company did “not believe the current Application before the EUB includes a review of the portfolio components.” Calgary however, indicated that Decision 2001-75 resulted from a Board initiated examination of all aspects of the GCRR methodology and that the portfolio component issue should be examined as part of the current process and ATCO should be providing the data requested by Calgary to facilitate such an examination.

Calgary had difficulty duplicating the calculations of monthly costs and recoveries per Schedule M1 of the Mock Application with monthly volumes per Schedule M2, and in duplicating the calculations of Rider D on Schedule R8. Calgary suggested that one alternative would be for ATCO to modify Schedule M-2 so the categories match those on Schedule M-1, and provide a Schedule R-9, which would show the volumes and prices used to determine the amounts on Schedule R-8.

The CCA indicated that certain additional continuity tables and graphs would be helpful in evaluating the monthly GCCR information. The CCA also considered that cross-referencing of information with the ATCO Gas North GCCR filing would be a useful addition.

Views of ATCO

In response to the concerns of the MI regarding the adequacy of the three-month rolling reconciliation period, ATCO submitted that the method illustrated in the mock DGA information packages provides a reconciliation of the DGA for one month in each monthly submission. For example, in the mock DGA information package, reconciliation schedules are provided for the month of November and, in addition, Schedule M-1 provides details on any adjustments to the DGA components for periods prior to November. ATCO pointed out that this method is similar to the old (current) system where seasonal costs and recoveries were reconciled and details of prior period adjustments were filed with the Board and interested parties. ATCO indicated that, rather than providing reconciliation schedules for the winter and summer seasons, ATCO is proposing to submit monthly reconciliation schedules, and as noted in Decision 2001-75, a 30-day review period will be provided for parties to raise any concerns with the GCCR.

ATCO noted Calgary's concern that the mix of AECO Monthly and Daily indices within the gas portfolio should be examined as part of the current process, and the MI's request for a Board direction for ATCO to provide analyses in support of the proposed mix. In response, ATCO stated that, the Company did not propose to change the method for determining the monthly procurement mix of AECO Monthly and Daily indices and submitted that review of the portfolio mix is beyond the scope of the current Application before the Board. ATCO argued that examining this issue now will jeopardize implementation of the new monthly GCCR process in April 2002, and as indicated previously, the Company is prepared to work with customers in separate discussions in order to review the portfolio mix.

ATCO pointed out that if the Company increased the monthly purchases with the AECO Monthly pricing mechanism to the various levels indicated by Calgary, the impact would depend upon actual weather conditions versus 'normal' weather conditions and the actual price difference between the AECO Monthly Index price and the AECO Daily Index price on the days when excess sales occur.

ATCO stated that it will provide the additional Schedule R-9 and will add line item 7 (Rider D & TCPL [AB] Fuel Recovery) in Schedule M-2, as requested by Calgary.

Regarding the CCA's request in a February 20, 2002 submission, that ATCO provide supplemental information in the monthly GCCR/DGA information package, ATCO submitted

that, since the supplemental information requested is not directly relevant to the derivation of the monthly GCRR in the Application, the Company would prefer to work with the CCA and develop a separate information package that would meet their needs.

Views of the Board

The Board acknowledges the concern of the MI that the three-month rolling reconciliation period may be too short, given the potential volume of changes to monthly forecasts. However, the Board is satisfied that the method proposed by ATCO as illustrated in the Mock Application information packages provides sufficient information to facilitate review of the DGA based on a three-month rolling reconciliation period.

The Board notes Calgary's concern that the mix of AECO Monthly and Daily indices within the gas portfolio should be examined as part of the current process, and the MI's request for a Board direction for ATCO to provide analyses in support of the proposed mix. The Board agrees with ATCO that a review of the portfolio mix is beyond the scope of the current Mock Application before the Board. The Board encourages the Company to continue with its proposal to work with customers in separate discussions in order to review the portfolio mix, and to address the CCA's request for additional information in monthly filings.

The Board is satisfied that use of 2001/2002 GRA forecast amounts to adjust existing rates for costs related to "gas management," and monthly carrying costs of storage inventory, is appropriate, on the basis that these amounts represent a more accurate reflection of those costs on a going forward basis. Approved 2001/2002 GRA forecast amounts will be available in due course, which may then be substituted for these proposed values.

The Board agrees with ATCO's proposal to provide the additional Schedule R-9 and to add line item 7 in Schedule M-2, as requested by Calgary. Accordingly, the Board directs ATCO to provide this information in monthly GCRR filings.

4.4 Gas Supply Costs and GCRR Adjustments

Views of Interested Parties

Calgary submitted that the Cost of Service items (deemed purchases, and adjustments for fuel, transportation and storage) referenced in Schedule M-1 of the Mock Application, should be removed from the delivery rates and reflected in the GCRR/DGA on a unit cost basis.

Views of ATCO

ATCO indicated that in the Delivery Rate Application, the Company requested the Board to reduce delivery rates by 2.2¢/GJ related to these Cost of Service items. ATCO submitted that it was appropriate to charge these costs to the DGA on a monthly basis to ensure that the costs are recovered from Sales customers. ATCO pointed out that, if a unit rate is charged, and there is a significant switch to retailers, ATCO will not be able to recover these costs as there would be fewer sales against which to apply the unit rate.

In the event that the Board directs the Company to transfer the costs as noted in its Application, despite the Company's position with respect to penalty revenues, ATCO did not agree that the adjustment to the GCRR should be on a \$/GJ basis as indicated by several interested parties. ATCO stated that, in order for the Company to recover the costs from the sales customers, these fixed costs need to be charged to the DGA on a monthly basis. ATCO pointed out that, if a \$/GJ adjustment is made and there is a transfer from sales to direct purchase, ATCO Gas will not recover its costs.

Views of the Board

The Board notes Calgary's recommendation for treatment of Cost of Service items on a unit cost basis in the monthly GCRR, and adjustment to delivery rates. However, the Board agrees with ATCO that treatment on this basis could result in an inability to recover the costs from Sales customers, and therefore approves ATCO's proposal to deal with these costs based on a proportional allocation of annual forecasts.

4.5 Forecasting Procedures and Format of GCRR Filings

Views of Interested Parties

Noting ATCO's proposal that AECO price forecasts for a month should reflect data up to the sixth last working day of the prior month, ENMAX pointed out that the AECO monthly index reflects transactions completed up to the end of that prior month. ENMAX considered that incorporation of additional month end data would increase the accuracy of the forecast, reduce potential DGA balances, and meet the Board's objective of providing a forecast that more closely reflects the actual cost of gas. While recognizing that the six working day timeframe is required to implement and test billing changes, ENMAX requested that the Board direct ATCO to review its billing system capabilities in order to shorten this time period and allow for more accurate price estimates.

ENMAX suggested that a combination of certain schedules in the Mock Application would simplify the filing and provide information in a more useful format. ENMAX provided examples of schedules in the filing that could be usefully combined to provide related dollar and volume data in single schedules. ENMAX requested that the Board direct ATCO to reformat the information in the filings along these lines.

Views of ATCO

ATCO submitted that the GCRR filings and format remain as filed, since no other parties requested simplification of the filing or modification to the format of the schedules as suggested by ENMAX.

Views of the Board

The Board notes the comments of ENMAX regarding review of ATCO's billing system capabilities, but considers this an issue beyond the scope of the current Application. The Board is satisfied with the level of information providing by ATCO in the filings, noting that there would be a trade-off between accuracy and practicality in reducing the number of days available for the

Company to prepare its monthly filings. The Board notes the Company's proposal to work with customers in separate discussions in order to review matters such as portfolio mix and requests for additional information in monthly filings, and encourages the Company to continue these efforts.

4.6 Value of Fuel and Imbalances

Views of Interested Parties

Calgary noted that, with respect to the indices used to value fuel and imbalances, ATCO has offered the view that while the forecast of imbalances will generally be zero, using a daily index to value imbalances will result in "a better match between avoided or incremental costs that did occur relative to the costs that would have occurred if there were no imbalances."

Calgary conceded that, given the forecast amounts, this would not appear to be a significant issue. However, in Calgary's view the overall regulatory process will be simplified if the average portfolio cost is used to value all transactions. This would also be consistent with the Board's directed treatment in Decision 2001-75 that storage withdrawals be valued at the current GCCR portfolio cost.

Views of ATCO

ATCO submitted its proposal to change the valuing method for fuel, imbalances and net storage injections in a December 5, 2001 submission to the Board and further in a response to Calgary's questions on March 1, 2002. ATCO indicated that the Company continues to support its original proposal and rationale with respect to valuing these items as noted in these submissions. Referring to page 64 of Decision 2001-75, ATCO noted that the Board considers that a monthly forecast GCCR should provide the most accurate gas rate, and submitted that use of the average portfolio cost would result in further inaccuracy in GCCR forecasts, since this unit rate is not stable for a few months, and is subject to potential adjustments. ATCO stated that the Company proposes to use actual stable publicly available prices to value these items rather than a unit cost that is always subject to potential changes. ATCO noted that no parties, other than Calgary, submitted objections to ATCO proposed methods of valuation.

Views of the Board

The Board approves ATCO's proposed methodology for valuation of fuel, imbalances and net storage injections. The Board is satisfied that ATCO's methodology is consistent with the direction in Decision 2001-75, that the monthly GCCR should provide the most accurate gas rate.

4.7 Exit Notice Provisions

Views of Interested Parties

The FGA and the MI supported ATCO's proposal for a common notice period of 15 working days before month end for all rate classes.

While supporting the 15-day exit notice period, PICA saw no reason why a two-month notice period is required for returning to utility service. Accordingly, PICA recommended that there be symmetry between exit and entry notice periods.

ENMAX considered that ATCO's proposed exit provisions in the Delivery Rate Application do not comply with the Board directive set out in Decision 2001-75. ENMX noted that ATCO had originally proposed a notice provision of 10 business days for Rate 1 customers, but subsequently set the notice period at 15 working days for all rates "to avoid confusion." ENMAX submitted that, to comply with the Board directive, the notice period should be no greater than the 10 business days originally proposed by ATCO for Rate 1 customers.

ENMAX pointed out that ATCO had not provided any justification for the greater administrative complexity attributed to transfers for customers on rates other than Rate 1, and saw no reason for ATCO to require a longer notice provision for all other customers. Accordingly, ENMAX considered that the notice provision should not be greater than 10 business days for all customers.

ENMAX failed to see the merit in linking the notice provisions to the preparation of the monthly GCRR, and stated that if the load shift is unlikely to be significant, as suggested by ATCO, it is not clear why ATCO cannot forecast the load shift information to determine its gas supply requirements for the upcoming month. Furthermore, ENMAX considered that, since the price of the overwhelming majority of all ATCO supplies will now be based on the AECO index, the load shift will not significantly impact the forecast average price of ATCO's supply portfolio. Based on these factors, ENMAX submitted that a shorter notice period could be administered by ATCO.

Based on review of ATCO's submission, ENMAX understood that, under the new notice provisions, customers can enroll for service on any given day of the month, in contrast to the existing policy allowing customers to enroll on one designated day per month. An individual customer's enrollment date, under the ATCO proposal, would therefore determine whether the effective date of transfer to a retailer would be in the month of enrollment, or the subsequent month. ENMAX submitted that a customer should have the option of having his account switched from utility service on any day that the customer chooses, following completion of the required notice period. For example, assuming a notice period of 10 working days, in a situation where notice is provided to ATCO on March 4, 2002, the customer should have service switched to a marketer as early as March 18, 2002. ENMAX requested that the Board direct ATCO to amend its enrollment policy to allow customers to enroll on any day of the month, and have service switched to a retailer on any day of the customer's choosing, following expiration of the notice period.

Views of ATCO

ATCO indicated that the Company was directed to see if current notice provisions could be shortened, which it did. ATCO pointed out that its recommendation of 15 working days reduces the notice time by approximately 30 days with respect to current practices. ATCO considered that a complete review of the regulations with respect to core market direct purchase would be

required before current practices including the further change recommended by ENMAX are revised. ATCO noted that PICA recommended that notice of return to the Company's GCRR should also be reduced to 15 working days. ATCO stated that it would not object to the notice period to renew the annual transportation agreement being reduced from two months to 15 working days.

Views of the Board

The Board notes the extent of support by interested parties for ATCO's proposal to reduce the exit notice provisions to 15 working days for all rate classes. Accordingly, the Board approves ATCO's proposal for revision of its General Conditions of Service to reflect a notice period of 15 working days. The Board agrees with ATCO that the further changes recommended by ENMAX would require a comprehensive review of the regulations with respect to core market direct purchase, and therefore should not be contemplated at this time.

The Board notes that ATCO is receptive to PICA's proposal for symmetry between exit and re-entry notice provisions. As ATCO has agreed to this provision, and as this appears to improve the ability of customers to exercise choice, the Board will, on its own initiative, vary Decision 2001-75 to permit the reduced notice period for entry onto the regulated rate. Accordingly, the Board directs ATCO to reduce the notice period required for entry onto regulated supply to 15 working days.

4.8 Storage Costs and Revenues

4.8.1 Allocation of COSRR

Views of Interested Parties

PICA noted ATCO's statement in the Mock Application that during the summer months, only the revenue from un-contracted storage capacity would be credited to customers, while during the winter months, the revenue for un-contracted storage capacity would be credited to customers plus the difference between the monthly costs of avoided or deemed purchases and storage withdrawal quantities. PICA also noted that carrying costs for storage inventory and other Carbon Cost of Service components would be recovered in the delivery charges of Rate Groups 1, 3, 5, 11 and 13.

PICA noted that, as pointed out by AIPA, this proposal results in a mismatch between costs and revenues in summer and winter months. PICA submitted that, since the benefits of storage are received by customers in the winter months, storage inventory carrying costs and the proportion of cost of service related to contracted storage, should be isolated and included in the calculation of the storage credit for all months of the year. PICA considered that, if this is not feasible, a forecast of the contracted storage benefits should be annualized and applied to all months and then adjusted to actual.

AIPA expressed concern with ATCO's proposal to allocate costs associated with gas storage to summer only service, Rate 5. AIPA submitted that gas storage costs, both direct and carrying costs, are properly allocated to the beneficiaries of such service who are winter consumption customers, and should not be allocated to non-winter consumption customers.

AIPA indicated that it had previously indicated concerns with the transfer of charges from delivery service to the GCCR and DGA. AIPA referred specifically to the proposal for reduction in costs of delivery service on a \$/GJ basis, while the corresponding addition to the DGA is proposed on a \$/month basis. AIPA pointed out that this procedure causes the seasonal summer load to bear a disproportionate share of these costs as the average monthly cost is spread over much lower seasonal volumes. To illustrate the point, AIPA referred to data from the Delivery Rate Application indicating that the proposal results in an allocation to summer rates 5 times greater than the allocation to winter rates on a unit basis. AIPA submitted that all cost reductions and additions should be applied on a consistent basis recognizing annual volumes and resulting unit costs.

In AIPA's view, ATCO misinterpreted Decision 2001-75 by stating in the Delivery Rate Application that "as directed by the Board, all rate group customers will have a storage rider applied to their accounts."

AIPA pointed out that since irrigation service, Rate 5, a summer only load, does not utilize Carbon storage for gas price stabilization or physical hedging this rate should not be treated in accordance with the North Core Committee (NCC) COP Rider proposal, as proposed by ATCO. AIPA noted that ATCO acknowledges that there are no current Carbon related costs in existing Rate 5 delivery rates, which have been established in past Board Decisions. AIPA submitted therefore, that since it has been recognized that there are no storage benefits for a summer only load, Rate 5 should be excluded from storage facility costs and also from the related storage credit rider.

AIPA noted that, while ATCO proposes to charge irrigation delivery service an additional 12.5 cents per GJ for storage related costs, the corresponding storage credit, for example, is only 5 cents per GJ (July credit of \$197,000/ 3,700 TJ). AIPA pointed out that this results in a net additional charge of the so-called costs and benefits of storage to summer load of 7.5 cents per GJ.

AIPA submitted that the Rate 5 variable rate should only reflect gas acquisition and COP adjustments resulting in a rate of \$0.691/GJ effective April 1, 2002 as opposed to the rate of \$0.816/GJ as proposed by ATCO. AIPA calculated that the proposed net storage increase together with the gas acquisition costs increase results in an increase of approximately 15% from the existing irrigation variable rate of 71.5 cents per GJ. AIPA submitted that this is unacceptable for a methodology that is purported to simply transfer costs from delivery service to the DGA without a rate impact.

AIPA recommended that the Board correct the proposed monthly GCCR methodology as suggested and not approve ATCO's proposed Rate 5 interim and refundable rate.

Calgary understood, from comments made, that ATCO believes that Decision 2001-75 has directed that the COSRR should be applied to all of Rates 1, 3, 5, 7, 11, 13 and 18.

Calgary did not agree that this could have been the intent of Decision 2001-75 on the basis that such a directive is contrary to the rate design established by the Board in Decision 2001-16. Calgary indicated that, in the CWNG 1998 Phase II GRA, Calgary provided testimony that Storage costs should be allocated to all rate classes except irrigation load, and that, in Decision 2001-16, the Board directed that Storage costs be allocated to Rates 1, and 3 only. Calgary pointed out that, consequently, existing Rate groups 5, 7, 11, 13 and 18 do not pay any portion of the costs of Storage. In Calgary's view, given that the COSRR, at present, is being applied to the 1998 rate design flowing out of Decision 2001-16, it is obviously inconsistent with that Decision to apply the COS Credit Rider to Rates 5, 7, 11, 13 and 18 which are not paying a portion of the Storage costs.

Calgary made the observation that currently, the net costs of Carbon Storage, as a rate base asset, are included in the rates. Calgary noted that, under the ATCO proposal, the gross cost of Carbon Storage will be embedded in the Delivery Rate (causing the Delivery Rate to increase) and a Rate Rider implemented, providing a credit or debit calculated as the Carbon Revenue (1998) +/- the summer/winter differential +/- carrying costs. Calgary opposed redesigning existing rates for storage in this manner.

France Financial Consulting Ltd. (FFC) expressed concern with the potential imposition of a new variable energy charge for Rate 13 customers, arising from adjustments with respect to Carbon storage costs and COP. FFC submitted that these costs should not apply to Rate 13 and other transportation customers, since they do not use these services, and that they should not be eligible for related riders (benefits or costs). FCC pointed out that, since transportation customers take responsibility for their own gas storage, price hedging, gas supply and security, they pay their own costs and take the related risks and benefits. FCC indicated that imposition of the proposed costs would result in double exposure to costs and risks for Rate 13 customers with respect to storage and gas supply.

Views of ATCO

In response to Calgary's concerns regarding treatment of Carbon Storage costs, ATCO considered that the methodology proposed for the storage rider is consistent with the NCC COP Rider Methodology.

ATCO noted that Calgary does not agree that the Storage rider should apply to all rate groups since all rate groups do not currently pay for storage in their rates. ATCO also noted that AIPA indicated that since Rate 5, a summer only load, does not utilize Carbon storage for gas price stabilization or physical hedging, Rate 5 should not be treated in accordance with the NCC COP Rider methodology. ATCO also referred to AIPA's concern that Rate 5 would incur additional costs under this proposal.

ATCO noted PICA's concern that, since the benefits of storage are received by customers in the winter months, storage inventory carrying costs as well as the proportion of storage cost of service related to contracted storage, should be isolated and included in the calculation of the storage credit. PICA also stated that, if this is not feasible, a forecast of the contracted storage benefits should be annualized and applied to all months and then adjusted to actual.

ATCO stated that the Company is also aware of concerns raised by certain Rate 13 customers provided to the Board with respect to the applicability of the Storage Rider to this rate group.

ATCO considered that its Application complies with the Board direction in Decision 2001-75 that the Company implement the same methodology with respect to Carbon storage as proposed by the NCC with respect to COP. ATCO pointed out that, as noted with respect to the COP Rider, the basic principle of that methodology is that all customer rate groups would be assigned the rider and that all rate groups would pay for the assets in the delivery rates.

However, ATCO noted that the concerns of interested parties indicate that application of the NCC COP Rider methodology to storage has created confusion, and also resistance with respect to the applicability to certain rate groups. In ATCO's view, the rider methodology for storage is more complex to administer than for COP.

ATCO confirmed that it was prepared to implement the Storage rider as proposed. However, given the complexity and confusion with respect to this rider, the Company considered that it may be prudent to delay implementation of the storage rider until the outcome of the Carbon Transfer Hearing is known. ATCO stated that, in the event that the Board agrees with the delay of the implementation of the Storage Rider, ATCO Gas South will revise its 2001/02 Compliance Filing accordingly.

Views of the Board

The Board notes the concerns of interested parties with respect to the inclusion of Rate classes 5 and 13 in the determination of the Storage rider and the related adjustment to delivery rates for those rate classes. The Board considers that there is need for clarification of the applicability of the storage adjustments. In Section 5.1.2 of Decision 2001-75, the Board found that the NCC COP Rider proposal meets the criterion of fairly allocating the benefits of production assets. The Board concluded that, prior to the transition towards a competitive market, all customers shared in the cost of those assets, and that therefore, all customers should benefit from their ongoing value. The Board considered that company owned storage assets used for gas price stabilization are of the same nature as COP assets, and directed ATCO to treat storage costs and benefits in the same manner as the NCC COP rider for inclusion in interim rates.

The basic rationale for the Board's directions in Decision 2001-75 with respect to Storage and COP was the need to create a level playing field between users of company supplied gas and commercially supplied gas. Historically, customers using company-supplied gas have regularly realized a benefit from a winter-summer price differential arising from the use of the storage facility compared to commercially supplied gas. When those conditions prevail, application of the directions required pursuant to Decision 2001-75 will provide a net benefit to all rate classes. However, given that gas prices have been in rapid decline over the past year, it is possible that storage will not provide a net benefit as of April 1, 2002. In order to maintain the direction in Decision 2001-75, the Board finds that it is necessary to implement the COSRR and corresponding adjustments to the delivery charges to all rate classes. Noting the comments of

AIPA and ATCO, however, the Board is persuaded that the proposed monthly methodology does treat Rate 5 customers unfairly.

Historically, the revenue and benefits arising from the use of Carbon, have more than made up for the cost of the Carbon storage facility. In the case of those customers taking service throughout the year, such as Rate 13, the Board expects that, although at this time there may be a net cost to the COSRR, ultimately, these customers will be better off sharing in the net benefits arising from Carbon. However, the Board notes that the proposed methodology would exclude Rate 5 customers from receiving the benefits arising from the winter/summer gas price differentials, which represent the lion's share of the benefits arising from the facility.

Accordingly, the Board is of the view that additional benefits must be allocated to Rate 5 customers, in order to treat them fairly. The Board notes that it would be possible to create a system of annual deferral accounts to precisely determine, and charge or rebate, the net benefits of the Carbon facility on a pro rata basis to Rate 5 and other customers. However, the Board is concerned that the additional administrative complexity that this would require would not be in keeping with the quantum of dollars involved. Therefore, the Board is of the view that, on an interim basis, a proxy value equal to the notional market value of storage paid by ATCO Midstream for use of a portion of the Carbon facility should be allocated to Rate 5 customers as their COSRR benefit. ATCO has noted in its filing that this amount is \$0.32/GJ. The Board recognizes that this may not be a perfect solution to addressing this problem. However, the Board is of the view that this will be a practical solution on an interim basis. The Board invites parties to make submissions regarding the COSRR for Rate 5 customers at the time of the final unbundled rate review required by Decision 2001-75. Parties are reminded that the application for this rate review is to be filed within 90 days of the approval of ATCO's 2001/2002 Phase I GRA revenue requirement.

Accordingly, the Board approves ATCO's proposed treatment of Storage in calculating the adjustment to delivery rates effective April 1, 2002 and in determination of the COSRR, subject to the change affecting Rate 5 customers.

4.8.2 Unit Rate for Uncontracted Storage Capacity

Calgary noted that the February 22 Revised Mock Application calculates Storage Revenue for Un-contracted Capacity at \$0.32 times 26.8 PJ. Calgary pointed out that, as \$0.32 was approved as a rate for the 1998 year only and ATCO has not filed any support for this rate for the 2002/2003 storage year, the \$0.32 rate should be used merely as a placeholder pending determination of the appropriate rate. Calgary stated that ATCO should advise if this understanding is incorrect, and provide justification for the use of \$0.32 for the 2002/2003 storage year.

Views of ATCO

ATCO indicated that the evidence filed by the Company at the Carbon Storage Transfer hearing supports the 32¢/GJ rate.

Views of the Board

The Board notes Calgary's and ATCO's comments regarding the rate for uncontracted storage capacity, but considers this an issue beyond the scope of this proceeding.

4.9 Company-Owned Production Adjustments

Views of Interested Parties

Calgary understood from comments made, that ATCO believed that Decision 20001-75 has directed that the COP Credit Rider be applied to all of Rates 1, 3, 5, 7, 11, 13 and 18.

Calgary did not agree that this could have been the intent of Decision 2001-75 on the basis that such a directive is contrary to the rate design established by the Board in Decision 2001-16. Calgary indicated that, in the CWNG 1998 Phase II GRA, Calgary provided testimony that COP costs should be allocated to all rate classes except transportation, and that in Decision 2001-16, the Board directed that COP costs be allocated to Rates 1, 3 and 5 only. Calgary pointed out that, consequently, existing Rate groups 7, 11, 13 and 18 do not pay any portion of the costs of COP. In Calgary's view, given that the COP Rider, as proposed, is being applied to the 1998 rate design flowing out of Decision 2001-16, it is obviously inconsistent with that Decision to apply the COP Credit Rider to Rates 7, 11, 13 and 18 which are not paying a portion of the COP costs.

Views of ATCO

ATCO considered that its Applications comply with the Board direction in Decision 2001-75 that the Company implement the methodology proposed by the North Core customers with respect to COP. ATCO noted that the basic principle of that methodology is that all customer rate groups would be assigned the rider and that all rate groups would pay for the assets in the delivery rates. ATCO stated that the Company's proposal is to adjust all delivery rates such that all rate groups pay for COP, and to apply the COP rider to all rate groups.

ATCO noted that the NCC methodology was proposed when ATCO Gas North had significant COP in its portfolio, and that, with the sale of the Viking properties, the COP remaining in the North portfolio is less than 3%. ATCO pointed out that the South COP represents approximately 1% of the South portfolio. ATCO stated that, while the Company is prepared to implement the COP rider as proposed, it is questionable whether the administration of this rider and added complexity on the bill is warranted in light of the significant change in COP in the North.

Views of the Board

The Board notes the concerns of Calgary and FFC with respect to the inclusion of Rate class 13 in the determination of the COP Rider and related adjustment to delivery rates for that rate class. The Board considers that there is need for clarification of the applicability of the COP adjustments. In Section 5.1.2 of Decision 2001-75, the Board found that the NCC COP Rider proposal meets the criterion of fairly allocating the benefits of production assets. The Board concluded that, prior to the transition towards a competitive market, all customers shared in the cost of those assets, and that therefore, all customers should benefit from their ongoing value. The basic rationale for the Board's directions in Decision 2001-75 with respect to Storage and

COP was the need to create a level playing field between users of company supplied gas and commercially supplied gas. Therefore, to maintain the direction in Decision 2001-75, the Board finds that it is necessary to implement the COP Rider and corresponding adjustments to the delivery charges to all rate classes, including Rate 13.

The Board disagrees with ATCO's proposal to delay implementation of the COPRR based on administrative complexity and change in conditions in the North, noting that ATCO did not propose this until their reply submission, thereby denying other parties the opportunity to comment on this proposal. Accordingly, the Board approves ATCO's proposed treatment of COP in calculating the adjustment to delivery rates for COP effective April 1, 2002 and in determination of the COPRR.

5 BOARD FINDINGS

Based on a review of the Mock Application, the Delivery Rate Application, and comments of interested parties, the Board is satisfied that, with incorporation of the directions in this Decision, the ATCO proposals for determination of the GCRR and revision to delivery rates on a going forward basis effective April 1, 2002 are appropriate and consistent with the directions in Decision 2001-75.

6 ORDER

THEREFORE, IT IS ORDERED THAT:

- (1) The methodology proposed by ATCO Gas South in the Mock Application for determination of its monthly GCRR, as amended by the directions in this Decision, is hereby approved.
- (2) The methodology proposed by ATCO Gas South in the Delivery Rate Application for adjustments to delivery rates, as amended by the directions in this Decision, is hereby approved.
- (3) ATCO Gas South shall now proceed with determination of its GCRR on a monthly basis, effective April 1, 2002, applying the methodology approved in this Decision.
- (4) ATCO Gas South shall now proceed with revision to delivery rates on an interim, refundable basis, effective April 1, 2002, applying the methodology approved in this Decision.

Dated in Calgary, Alberta on March 21, 2002

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>

T. McGee
Member