

ALBERTA ENERGY AND UTILITIES BOARD

Calgary, Alberta

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

**Decision 2002-035
Application Nos. 1257378 and 1257516
File Nos. 5627-46 and 5627-47**

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 is as short as can 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 North (ATCO or the Company), a division of ATCO Gas and Pipelines Ltd. 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

In a letter to the Board dated December 5, 2001, ATCO indicated that it would negotiate with the North Core customers as to the necessary changes required to implement the various directions in Decision 2001-75.

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 North Division. (ATCO)
 - 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 Users Association of Alberta (AIPA/EUAA)*
 - 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 ENMAX Energy Corporation, regarding the Application. 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 GCRR of \$3.645/GJ for February 2002, stating that most of the gas purchases included in the calculation are based on Alberta Energy Company's (AECO) Monthly or Daily mechanisms.

ATCO proposed a Company-Owned Production Rate Rider (COPRR) of \$0.023/GJ 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.

3.2 Delivery Rate Application

In the Application, ATCO indicated that the Company believed it had an agreement with the North Core Committee¹ (NCC) to implement the changes to its rate schedules as identified in the Application on an interim, refundable basis pending resolution of the re-opener to North Core

¹ The North Core Committee include: Aboriginal Communities, Canadian Forest Products, Edmonton, CCA, FGA, MI, and PICA

Agreement resulting from the sale of the Viking producing properties. ATCO indicated the impact of Decision 2001-75 on delivery rates, and requested approval of the following.

3.3 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.

3.4 Gas Acquisition Costs

ATCO indicated that representatives of the NCC agreed that the ATCO Gas South (AGS) proposal was acceptable as a surrogate for the North on an interim basis pending resolution of the re-opener to the North Core Agreement triggered by the sale of the Viking production assets. ATCO therefore proposed to use the AGS forecast 2002 acquisition costs of \$2,149,000 to develop interim rates for April 1, 2002. Based on application of forecast 2002 sales for ATCO Gas North and ATCO Pipelines North of 117,629 TJ, ATCO proposed a reduction to delivery sales rates of \$0.018/GJ effective April 1, 2002.

ATCO indicated that, as outlined in the AGS proposal, the deferred gas account (DGA) would be charged \$179,000 each month ($1/12^{\text{th}}$ of \$2,149,000) effective April 1, 2002.

3.5 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 pointed out that the North Core customer representatives agreed that, effective April 1, 2002, a variable rate of \$0.049/GJ would be applied to Rate 13 and Rate 13B on an interim basis pending resolution of the re-opener to the North Core Agreement.

ATCO indicated that, as a result of the addition of COP costs to Rate 13 and 13B, Section C4 of the General Conditions of Service (Production and Gathering Charge) is no longer required and has been deleted.

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

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 it 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 GCRR 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 GCRR.

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 regarding the 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 GCCR 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, forecast gas supply volumes and related costs, from the preliminary drafts tabled by AGS at a meeting held with interested parties on February 8, 2002 to discuss the AGS recommendations. 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, and anomalies

between AGS and North in the level of royalty forecasts. The MI submitted that more information is required prior to the April 1 filing, to facilitate assessment of the proper mix of monthly and daily supplies, and to address the apparent anomaly in the royalty cost forecasts.

The CCA indicated that certain additional continuity tables and graphs would be helpful evaluating the monthly GCCR information. The CCA also considered that cross-referencing of information with the AGS 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 the MI's request for a Board direction for ATCO to provide analyses in support of the proposed mix of monthly and daily supplies. 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 considered 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.

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 GCCR 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 GCCR information packages provides sufficient information to facilitate review of the DGA based on a three-month rolling reconciliation period.

The Board notes the MI's request for a Board direction for ATCO to provide analyses in support of the proposed mix of monthly and daily supplies. The Board agrees with ATCO that a review of the portfolio mix is beyond the scope of the current Application before the Board. The Board however, encourages the Company to pursue 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 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 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 Energy Corporation (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 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.

4.5 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 argued 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 GCCR, 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 GCCR 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 is prepared, on its own initiative, to 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.

4.6 Company Owned Production Rate Rider (COPRR)

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 NCC 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 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 considers that there is need for clarification of the applicability of the COP adjustments. In paragraph 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 Company-Owned Production was the need to create a level playing field between users of company supplied gas and commercially supplied gas. Accordingly, the Board directed ATCO to apply the NCC COP rider methodology for COP costs for inclusion in interim rates.

The Board however, disagrees with ATCO's proposal for elimination of the COP Rider, based on administrative complexity and change in conditions in the North, noting that the proposal represents new evidence in this proceeding. 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 COP Rider.

4 BOARD FINDINGS

Based on 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.

5 ORDER

THEREFORE, IT IS ORDERED THAT:

- (1) The methodology proposed by ATCO Gas North 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 North in the Delivery Rate Application for adjustments to delivery rates, as amended by the directions in this Decision, is hereby approved.
- (3) ATCO Gas North 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 North 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