

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.

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 a statement of 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. The following parties were represented at the meeting:

- ATCO Gas and Pipelines Ltd, ATCO Gas South Division (AGS)
- AltaGas Utilities Inc. (AltaGas)
- The City of Calgary (Calgary)
- City of Edmonton (Edmonton)
- Municipal Interveners and Urban Municipalities (MI/UM)*
- 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 Intervenors (FGA)*
- * These intervener groups were jointly represented

3 PARTICULARS OF THE APPLICATION

On February 15, 2002, AltaGas filed a mock GCRR Application (the Application) for the February 2002 period requesting Board approval of the mechanisms used to derive proposed GCRR rates. AltaGas proposed a GCRR of \$3.703/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.

For purposes of calculating the February 2002 GCRR, AltaGas included costs of third party storage. However, AltaGas indicated that the Company had reached an agreement with customers to assign its long-term gas storage contracts and discontinue the use of third party storage after March 31, 2002. AltaGas indicated that an application for approval to assign its gas storage contracts was filed with the Board on February 12, 2002. AltaGas stated that the assignment of these contracts would mitigate any gas storage costs beyond the Winter 2001/2002 period.

4 GCRR ISSUES

4.1 Three Month Rolling Reconciliation Period for DGA Balances

Positions of Interested Parties

The UM submitted that, as indicated with respect to the AGS Mock GCRR, the three-month rolling reconciliation period for deferred gas account (DGA) balances may be too short and customers should be given a reasonable period to review any reconciliation prior to ultimate finalization. In the case of the AGS Mock GCRR, the observation was based on the fact that the 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 the February 8, 2002 meeting. The recommendation in the AGS case was that the Utility should be required to provide full details of subsequent adjustments when a 'final' reconciliation is sought.

Views of the Board

The Board acknowledges the concern of the UM 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 AltaGas as illustrated in the mock GCRR information package provides sufficient information to facilitate review of the DGA based on a three-month rolling reconciliation period.

4.2 Non-Gas Supply Components

Views of Interested Parties

The EUAA expressed concern with the AltaGas proposal to allocate the monthly amounts for bad debts, DGA balance carrying costs and penalty revenues based on the relative proportion of an annual forecast. The EUAA submitted that these costs and revenues are related to volumes and the monthly allocations should reflect such volumes. The EUAA considered that the proposed treatment results in allocation of a disproportionate amount of costs to lower consumption months with higher resultant unit costs.

The EUAA submitted that the current year estimate for these components should reflect last year's actual amounts and a forecast of the current year's costs and volumes, which should take into account sales growth and any migration to alternate supply.

Views of AltaGas

AltaGas agreed with the EUAA that, while the individual values of non-gas supply components vary over time, it is not strictly correct to state that these costs "are related to volumes." AltaGas pointed out that the gas management fee is an annual fee largely unaffected by the use of gas by customers, and that bad debts, cash working capital costs and penalty revenues are not only affected by levels of gas consumption, but also by factors such as gas prices and the prevailing economic climate. Furthermore, AltaGas considered that, in creating "a level playing field," it is important to develop processes that are not overly complex and difficult to manage. AltaGas indicated that, based on data from the Company's current General Rate Application (GRA), these four components total \$154,500, or 3/10ths of one percent of a gas portfolio of \$57 million. AltaGas considered that it had proposed a practical, fair and reasonable solution for dealing with these items.

Views of the Board

The Board agrees with AltaGas that the levels of non-gas supply costs and revenues are not entirely dependent on volumes of gas consumed by customers, and therefore considers that monthly allocation of these costs based on the relative proportion of annual forecasts is reasonable. The Board also agrees that the proposed allocation avoids the introduction of unnecessary complexity into the calculation of these costs, which comprise a small proportion of the Company's gas portfolio costs. Therefore, the Board approves the methodology proposed by AltaGas for treatment of non-gas supply costs.

4.3 Sales Forecasts

Views of Interested Parties

The EUAA considered that AltaGas should continue to use annual sales and purchase volumes forecasts, taking account of growth and migration to alternate supply, as well as the reasonableness of non-gas direct supply costs and allocations to the monthly GCRR.

Views of AltaGas

While recognizing the importance of annual forecasts for processes such as general rate applications, AltaGas submitted that, for purposes of determining a monthly GCCR, actual information on sales and purchase volumes provided through monthly submissions and reconciliations, would be of greatest benefit in assessing factors such as growth, usage and the effects of direct sales.

Views of the Board

The Board notes the concerns of the EUAA that GCCR purchase and sales volumes should be based on annual purchase and sales information updated to reflect growth and migration to alternate supply. However, the Board agrees with AltaGas that a monthly GCCR, incorporating purchase and sales data determined based on monthly forecasts and reconciliation, should provide a reasonable basis for assessment and recognition of factors such as growth and the effects of direct sales. Therefore, the Board approves the monthly forecasting methodology proposed by AltaGas.

4.4 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. The FGA expressed concern with use of the arithmetic average rather than the total weighted average of all transactions for the month, noting that the Canadian Gas Price Reporter (CGPR) reports both calculations. However, the FGA noted that the value reported in the Natural Gas Price Summary as the “Daily Index,” which is most widely reported, is the “Total Weighted Average.” 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, nor as widely known as the “Total Weighted Average.” The FGA considered it would be 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.

Views of AltaGas

AltaGas had no concern with use of an index that is more readily accessible to its customers, and consistent with that used by ATCO Gas.

Views of the Board

The Board considers that there is merit in the proposal of the FGA 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 AltaGas. The Board notes that AltaGas agrees with the FGA 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 AltaGas to use the more readily accessible CGPR “Weighted Average” as the daily AECO reference price in monthly GCCR calculations.

4.5 Third-Party Storage

Views of AltaGas

For purposes of calculating the February 2002 GCCR, AltaGas included costs of third party storage. However, AltaGas indicated that the Company had reached an agreement with customers to assign its long-term gas storage contracts and discontinue the use of third party storage after March 31, 2002. AltaGas indicated that an application for approval to assign its gas storage contracts was filed with the Board on February 12, 2002. AltaGas stated that the assignment of these contracts would mitigate any gas storage costs beyond the Winter 2001/2002 period.

Views of the Board

In Decision 2002-022 dated February 28, 2002, the Board provided final approval for AltaGas to sell its rights to certain gas storage contracts to its affiliate company AltaGas Services Inc., for the amount of \$144,000. Accordingly, the Board directs AltaGas to reflect the effect of Decision 2002-022 in the determination of the monthly GCCR effective April 1, 2002.

4.6 Delivery Rates

4.6.1 Changes to Delivery Rates

Views of AltaGas

In a letter to the Board dated February 28, 2002, AltaGas proposed that related adjustments required to delivery rates should be dealt with in the Phase II portion of the 2000/2001/2002 GRA.

Views of the Board

The Board notes that the AltaGas Phase II GRA is required to be filed within 90 days of the approval of its current 2000/2001/2002 Phase I GRA, as directed in Decision 2001-75. The Board also notes that approval of the AltaGas Phase I GRA is imminent. Therefore, the Board accepts that AltaGas will be able to provide for final adjustments to its delivery rates as directed, in the near future.

4.7 Changes to Exit Provisions

Views of AltaGas

In a letter dated March 5, 2002, AltaGas advised the Board that the Company did not propose any change to its existing exit notice provision of two months, on the basis that there have been no active marketing efforts in the AltaGas service area, and that it will take time and effort by the Company and potential marketers to develop the processes and systems to accommodate any significant marketing effort. AltaGas considered it more appropriate to contemplate notice period revisions as part of the upcoming Phase II portion of the GRA, at which time the Company will be at a more advanced stage in its preparation for marketing activity.

Views of the Board

The Board notes that the AltaGas Phase II GRA is required to be filed within 90 days of the approval of its current 2000/2001/2002 Phase I GRA, as directed in Decision 2001-75. The Board also notes that approval of the AltaGas Phase I GRA is imminent. Therefore, the Board accepts that AltaGas will be able to provide for final adjustments to its delivery rates as directed, in the near future.

5 BOARD FINDINGS

Based on review of the Mock GCCR and comments of interested parties, the Board is satisfied that, with incorporation of the directions in this Decision, the AltaGas proposals for determination of the GCCR on a going forward basis effective April 1, 2002, are appropriate and consistent with the directions in Decision 2001-75.

Recognizing that AltaGas soon intends to initiate the Phase II portion of its 2000/2001/2002 GRA proceedings, the Board agrees that it is appropriate to deal with the issue of transfer of direct gas supply costs from utility cost of service and proposals for exit notice provisions during that Phase of the GRA. Therefore, the Board directs AltaGas to provide proposals regarding these issues in its upcoming Phase II GRA.

6 ORDER

THEREFORE, IT IS ORDERED THAT:

- (1) The methodology proposed by AltaGas Utilities Inc. in the Mock GCCR Application for determination of its monthly GCCR as amended by the directions in this Decision, is hereby approved.
- (2) AltaGas Utilities Inc. shall now proceed with determination of its GCCR on a monthly basis, effective April 1, 2002, applying the methodology approved in this Decision.
- (3) During the Phase II portion of its 2000/2001/2002 General Rate Application, AltaGas Utilities Inc. shall propose a methodology to identify the amount of direct gas supply costs to be transferred from utility cost of service.
- (4) During the Phase II portion of its 2000/2001/2002 General Rate Application, AltaGas Utilities Inc. shall propose an exit notice provision for their regulated gas rates that is as short as can be facilitated administratively.

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