



ATCO Gas South

**2001/2002 General Rate Application
Compliance Filing**

May 30, 2002

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2002-050: ATCO Gas South
2001/2002 General Rate Application
Compliance Filing
Application No. 1258189

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1 INTRODUCTION

On December 12, 2002, the Alberta Energy and Utilities Board (the Board) issued Decision 2001-96 regarding the 2001/2002 Phase I General Rate Application (GRA) of ATCO Gas South (ATCO or the Company). In Decision 2001-96, the Board directed ATCO to re-file its 2001/2002 GRA to incorporate the Board's findings in the Decision and provide all of the supporting schedules necessary for the Board to make its final determination respecting the 2001/2002 revenue requirement. The Company was also directed to propose a method for disposition of the revenue surplus or shortfall for 2001 on an interim basis, pending final determination of the revenue requirement for the test years after the Board has issued decisions on the ATCO Affiliates and ATCO Pensions proceedings.

On February 28, 2002, ATCO re-filed its 2001/2002 GRA (the compliance filing), reflecting the revisions to the Company's Rate Base and Revenue Requirement required to comply with the Board's directions in Decision 2001-96. In the original compliance filing, the Company proposed the collection of the revenue requirement shortfalls for both test years by means of a rate rider of \$0.360/GJ on customer consumption for the period from May 1, 2002 to December 31, 2002. The Company also proposed collection of \$4.206 million in regulatory costs for the test years by means of a rate rider of \$0.073/GJ on customer consumption over the same period as the shortfall rider. On March 25, 2002, ATCO filed a revision to the compliance filing changing the methodology for collection of the rate riders.

On March 1, 2002, the Board issued a letter requesting interested parties to review the compliance filing, and submit any comments to the Board no later than March 28, 2002. By letter dated March 27, 2002 the Board extended the deadline for submissions to April 3, 2002 in response to a request from the City of Calgary.

By April 3, 2002, submissions on ATCO's compliance filing were received from Coral Energy Canada Inc (Coral), the Public Institutional Consumers of Alberta (PICA), the Municipal Intervenor (MI) and the City of Calgary (Calgary).

By letters dated April 4, 2002 and April 16, 2002, the Board requested that ATCO respond to the comments and questions of interested parties by April 19, 2002, and provide an updated compliance filing, revised as considered appropriate, based on the issues raised.

On April 22, 2002, ATCO filed its response to intervener comments, and provided an updated compliance filing (the Update), revised where considered necessary to address issues raised.

The Board considers that the record for this proceeding closed on April 22, 2002.

2 EFFECT OF DIRECTIONS IN THE DECISION

The Board does not expect that the directions in this Decision will have a significant effect on revenue requirement, forecast revenues, and the shortfall rider calculation as set out in the compliance filing and considers that any potential revisions required in or as a result of this Decision can be dealt with in a second compliance filing submitted after the Board has issued decisions on the ATCO Affiliates and ATCO Carbon Storage Transfer proceedings. The Board considers that any potential revision to the interim shortfall rider can be processed as required on final reconciliation of amounts collected after determination of final rates in the Phase II process.

3 ISSUES RAISED BY INTERESTED PARTIES

3.1 Collection of Revenue Shortfalls

Views of the Applicant

In the compliance filing, ATCO referred to the following direction of the Board in Decision 2001-96:

ATCO Gas South shall propose a method for collection of the 2001 revenue shortfall on an interim basis pending final determination of the revenue requirement for the test years upon receipt of Board decisions with respect to the ATCO Affiliates and ATCO Pension proceedings.¹

In addition to collection of the 2001 revenue shortfall, ATCO considered it appropriate to also collect the 2002 revenue shortfall and therefore included a proposal in the compliance filing for collection of revenue shortfalls for both test years. By letter dated March 25, 2002, ATCO filed a revision to its original proposal for collection of the revenue shortfall, changing the proposed methodology to recognize the reallocation of storage revenues from the GRA to the Gas Cost Recovery Rate (GCRR), and to calculate the allocation of the shortfall to rate classes based on revenue from existing rates instead of forecast consumption.

ATCO pointed out that Calgary was the only party to take issue with the proposal to recover the 2002 revenue shortfall in addition to the 2001 shortfall. ATCO noted that Calgary's position was based on the fact that the Board did not direct the Company to develop interim rates to recover the 2002 shortfall and that significant issues of equity and rate design need to be addressed. While Decision 2001-96 did not address the collection of the 2002 revenue shortfall, ATCO submitted that the likelihood of recovering the shortfall in 2002 through final rates appears remote given that it is approaching the mid-point of 2002 and that issues regarding appropriate rate design, as raised by Calgary, will not be addressed until the Phase II application. Given these factors, and the magnitude of the shortfall, ATCO has requested approval to collect the 2002 shortfall, on an interim basis, in 2002.

In this regard, ATCO also pointed out that effective April 1, 2002, customers will receive the 2002 annual storage revenue from ATCO Midstream through the company-owned storage rate rider (COSRR) determined in connection with the GCRR-related applications (the GCRR Filing) recently addressed by ATCO and interveners, pursuant to Decision 2001-75, dated October 31, 2001. ATCO indicated that there would be a disparity if the Company did not recover the 2002 revenue shortfall in the same year as the storage revenue is being returned to customers.

¹ Decision 2001-96, p. 136

ATCO noted that AIPA, PICA and Coral agree with the proposed allocation method, while Calgary has indicated that recent rate changes to existing delivery rates related to storage make the proposed allocation of the revenue shortfall inappropriate. ATCO also noted the MI's proposal to allocate a portion of the revenue shortfall on the basis of forecast throughput and the remainder on the basis of forecast revenues.

ATCO considered that without a detailed Cost of Service (COS) study for 2002, an exact assignment of costs to the various rate groups is not possible. ATCO acknowledged that, while existing rates have been modified, the changes are sufficiently insignificant that revenue on existing rates is the best available proxy for a COS study. ATCO submitted that the Board should approve the method proposed.

Referring to PICA's proposal for a percentage rider mechanism to recover the revenue shortfall, ATCO submitted that the volumetric mechanism is simple, understandable and has been the method used to recover previous shortfalls, noting that no other party opposed distribution of the shortfalls on a volumetric basis. ATCO submitted that the Board should approve the method proposed, and in the Update, provided a revised calculation of the shortfall riders incorporating amendments to the compliance filing. ATCO provided separate calculations of the riders based on May 1, 2002 and June 1, 2002 implementation dates respectively.

Referring to the MI's request for a reconciliation of the amount included as storage revenue in determination of the COSRR and the GRA 2002 forecast of \$13.92 million, ATCO stated that the two amounts are not comparable. ATCO pointed out that the forecast storage revenue has been excluded from the 2002 revenue shortfall in the compliance filing, and that the amount of \$12.054 million included in the COSRR calculation is revenue receivable from ATCO Midstream for the period January 2002 through to March 2003. ATCO indicated that this amount comprises the following revenues from ATCO Midstream:

- \$3.481 million for the period January-March 2002 (based on $43.5PJ \times \$0.32¢/GJ$)
- \$6.432 million for the period April to December 2002 (based on $26.8PJ \times \$0.32¢/GJ$)
- \$2.145 million for the period January-March 2003 (based on $26.8PJ \times \$0.32¢/GJ$)

ATCO indicated that, as a result of the implementation of the COSRR and related adjustments, approved in Decision 2002-034, dated March 21, 2002, customers are receiving the benefit of storage revenue net of NWC through the COSRR, rather than through cost of service in the compliance filing. ATCO submitted that customers are not in any way being "double charged" as indicated by Calgary.

Views of the Interveners

Calgary stated that Decision 2001-96 contained no direction to or authority for ATCO to collect any revenue shortfall for 2002. Calgary submitted that ATCO should only be allowed to collect the interim 2001 revenue shortfall at this time, and indicated that there are significant issues of equity and rate design that have to be addressed before sums of the magnitude proposed by the Company should be considered for collection from customers, even on an interim basis.

Calgary noted the majority of the revenue shortfall referred to in ATCO's March 25, 2002 letter results from the reallocation of storage revenue from the GRA to the GCRR used in calculation of the storage rider determined in connection with the GCRR Filing. Calgary considered it

inappropriate for amounts to be collected on an interim refundable basis until the full implication and appropriateness of the allocation of costs and revenue shortfalls is determined and the exact methodology for the storage rider is known.

Calgary had no objection to collection of the 2001 shortfall and collection of the hearing costs by way of interim rate riders, if the Board determines the amounts from examination of this compliance filing. Calgary recognized that there may be merit in calculating these riders on the basis of revenue but sees no merit in calculating the storage revenue on that basis when the 1998 costs used in the GCRR Filing to determine adjustments to the delivery charges were clearly allocated based on volumes. Calgary provided a table showing the magnitude of the difference between the rate groups by use of revenues versus volumes.

Calgary submitted that, if the allocation in the GCRR Filing, which was approved in Decision 2002-034, is the appropriate methodology, allocation of the storage portion of the shortfall (\$13.92 million) must be allocated on the same basis. Calgary stated that failure to do so makes a mockery of rate design principles of cost causation and cost allocation and flies in the face of natural justice.

Calgary considered that the correct methodology would have been a sub-division of the shortfall into each of its components for each year (hearing cost reserve, storage adjustment and the balance) and distribution of each component to rate groups on the appropriate basis. Calgary submitted that ATCO has further complicated the matter by trying to incorporate the GCRR Filing adjustment, approved in Decision 2002-034 effective April 1, 2002, with the 2001 and 2002 deficiencies.

In addition, Calgary noted that Decision 2002-034 had the effect of distributing \$8.709 million of storage revenue to customers through a storage rider, and submitted that inclusion of the full \$13.92 million in another rider results in double charging to customers, although ATCO's March 25th revision may be an attempt to rectify part of the problem.

Finally, Calgary pointed out that, since the adjustment related to storage revenues is effective April 1, 2002, the amount of the shortfall related to the transfer of the 2002 storage revenues to the GCRR should be 9/12 of \$13.92 million rather than 100%. Calgary noted that other items transferred to the GCRR, such as the bad debt expense/penalty revenues, have not been reflected in the determination of the 2002 surplus/(deficiency). These factors, in Calgary's view, are further reasons why this piecemeal approach to rate design is inappropriate.

Calgary submitted that for these reasons, the rate riders resulting from the compliance filing should be approved for the 2001 shortfall only and the hearing costs.

The MI referred to the shortfall of \$20.747 million, as determined in the compliance filing prior to ATCO's March 25 update. The MI noted that \$13.92 million of the shortfall resulted from moving Carbon storage revenues of \$13.92 million into the COSRR in the GCRR Filing. The MI pointed out that in the GCRR Filing, ATCO filed a COSRR of \$0.082 per GJ, applicable to all rate classes except Rate 5.

The MI considered it would be more appropriate to allocate the \$13.92 million to rate classes on the basis of volume, given ATCO's position that storage is no longer required for operational purposes, but now used as a physical hedge for gas supplies and possibly for 'optimizing' gas costs to some extent in 2002/03. The MI noted that in fact, that is how those revenues are treated

for purposes of the COSRR, and submitted that it would be inconsistent to allocate that portion of the shortfall rider on the basis of revenues and the corresponding credit rider on the basis of volume. The MI considered however, that it would be appropriate to allocate the balance of the shortfall to rate classes on the basis of revenues as proposed by ATCO as the underlying costs are generally related to all remaining functions.

PICA noted that ATCO's proposal to share the shortfall on existing revenues is a change from the method originally proposed, where the shortfall would have been recovered on volume of consumption. PICA considered that the volumetric allocation to rate classes does not reflect the underlying cost of service and should not be adopted by the Board.

PICA supported the allocation of the shortfall to rate classes based on existing revenues, and stated that, given that existing revenues are based on the latest COS study approved by the Board, allocation on the basis of revenues is the most equitable method of allocation. PICA considered that, to ensure all customers within a rate class (high and low load factor customers) will be treated fairly, the shortfall amount applicable to each rate class should be collected by way of a percentage rider applicable to the delivery rates component of customer bills. PICA indicated that the percentage rider should be "calculated by expressing the amount of the rate class shortfall by the forecast rate class delivery rate revenues for the period May 1, 2002 to December 31, 2002."

Coral Energy Canada Inc. (Coral) stated that it acted as agent for sixteen Rate 13 customers on the ATCO system, with a combined annual consumption in excess of 5,000 TJ. Coral indicated that, through this agency relationship, it represents a significant proportion of the Rate 13 customer class on the ATCO system. Coral expressed support for the compliance filing, as amended by ATCO's March 25, 2002 update.

Coral noted that ATCO proposes to allocate the revenue shortfall and hearing costs to Rates 1/11, 3, 5/18, and 13 on the basis of forecast 2002 revenues on existing rates for each of those rate classes. Coral noted that these revenues flow from, and are representative of, the allocation of costs contained in the last Board-approved COS study.

Coral considered that the last Board-approved COS study is the most appropriate method to allocate the revenue shortfall and regulatory costs, as revenue on existing rates provides the proxy allocation units for that COS study. In Coral's view, any cost allocation methodology that provides results significantly different from an allocation based on the last Board-approved COS study is fundamentally inequitable and has no basis in logic.

Specifically, Coral noted that ATCO's compliance filing, issued prior to the March 25 update, proposed a volumetric allocation of costs that produced dramatically inappropriate results for Rate 13 customers. Coral strongly opposed the allocation of revenue shortfall and hearing costs contained in ATCO's original compliance filing, which resulted in a proposed rate rider of approximately \$0.433/GJ, representing increases to Rate 13 customers in the order of 150% to 200%.

On the other hand, Coral supported ATCO's revised allocation methodology, and submitted that the Board should approve the allocation of the revenue shortfall and hearing costs to Rates on the basis of 2002 forecast revenue on existing rates filed with the March 25, 2002 update, and on balance, supported the eight-month recovery period as proposed by ATCO. Coral provided

various tables to demonstrate the relative impacts on typical customers from application of the original volumetric cost allocation and revised allocation based on revenues.

Coral concluded that, even with an appropriate allocation methodology, there will still be a significant impact to Rate 13 customers from the resulting rate riders, but submitted that those customers are prepared to bear their fair share of the revenue shortfall and hearing costs. Coral considered the revenue-based allocation as proposed by ATCO in its March 25, 2002 update to be more just and reasonable to all Rates as it is based on the last Board-approved COS study.

Views of the Board

The Board notes that Calgary's objections to collection of the 2002 shortfall include the concern that "significant issues of equity and rate design" need to be considered before approving collection. The Board recognizes that, while interveners share the view that allocation and distribution of the shortfall should be based on results of an updated COS study, Calgary is also concerned that collection is premature pending determination of the storage rider methodology and resolution of issues related to transfer of other gas management costs to the GCRR.

The Board agrees with ATCO that the likelihood of recovering the shortfall in 2002 through final rates appears remote given that it is approaching the mid point of 2002 and that issues regarding appropriate rate design will not be addressed until the Phase II application. The Board is satisfied that all of the issues relative to transfer of storage revenues to the COSRR were settled and approved in Decision 2002-034, and that customers are receiving the benefit of storage revenue through the COSRR, rather than through a reduction to a GRA revenue shortfall. The Board is not persuaded that there is justification for linking the allocation methodology to the treatment of storage revenue in the GCRR Filing, simply because the storage revenue credit was previously netted out in determining the revenue shortfall.

The Board considers that the magnitude of the 2002 shortfall justifies collection prior to determination of final rates, and agrees with ATCO, PICA and Coral that revenue on existing rates is the best available proxy for a COS study. The Board also notes that ATCO's proposed collection methodology is consistent with the methodology approved by the Board in previous applications by the Company for collection and refund of previous GRA shortfalls and surpluses. Accordingly, the Board accepts ATCO's proposal for collection of the revenue shortfalls for 2001 and 2002 on an interim refundable basis.

However, the Board agrees with Calgary's concern that costs transferred to the GCRR, such as bad debt expense/penalty revenues, have not been reflected in the determination of the 2002 shortfall, and considers that the compliance filing should be adjusted to reflect the impact of those transfers on revenue requirement for 2002. The Board therefore directs ATCO to adjust the compliance filing to reflect the impact of amounts transferred from base rates in the GCRR Filing.

3.2 Property, Plant and Equipment

Views of the Applicant

In the compliance filing, ATCO reduced the 2001 opening balance of Property, Plant and Equipment by \$4.7 million, to recognize the shortfall of actual expenditures for the year 2000 compared to the original forecast. ATCO also reflected a reduction to the 2001 opening balance to recognize the disallowance of \$394,000 of costs capitalized in the year 2000 related to service line alterations.

In response to concerns expressed by Calgary, ATCO indicated that the year 2000 forecast depreciable base for Distribution Services of \$162.278 million in the GRA was reduced by \$4.719 million to recognize the adjustment to the 2001 opening balance of Property, Plant and Equipment, and by \$900,000 for the transfer of service line alterations from utility to non-utility rate base, resulting in the depreciable base of \$156.659 million in the compliance filing. ATCO pointed out that the \$394,000 of costs related to service line alterations consists of capital expenditures of \$900,000, and contributions of \$506,000, for a net amount of \$394,000. ATCO indicated that the year 2000 accumulated contributions for Distribution Services have been reduced by \$506,000 from the original amount of \$74.315 million. Noting Calgary's question about the specific tariff or rate, which would entitle the Company to collect contributions that have not been approved by the Board, ATCO submitted that it has the authority to collect these contributions pursuant to Schedule B of the Service Regulations.

Referring to Calgary's observation that the 2001 opening accumulated depreciation balance in the compliance filing was unchanged from the GRA, ATCO indicated that Decision 2001-96 did not require that the Company make any other adjustments in connection with the reduction of \$4.7 million to the 2001 opening balance of Property, Plant and Equipment. ATCO pointed out that, as indicated in the Company's Review and Variance of Decision 2001-96, the more appropriate treatment is to adjust all components of rate base that varied from the year 2000 forecast. Accordingly, ATCO considered that Calgary's concern with respect to accumulated depreciation is more appropriately addressed in a Review and Variance proceeding.

Referring to questions raised by the MI, ATCO pointed out that, while Decision 2001-96 directed the reduction of capital expenditures by \$1.732 million (2001), and \$2.295 million (2002) including amounts related to the OPS/MMS and GMS projects, ATCO increased the reductions to recognize Allowance for Funds Used During Construction (AFUDC) with respect to projects in the Construction Work in Progress (CWIP) account. ATCO pointed out that Decision 2001-96 indicated that the OPS/MMS and GMS expenditures are not to be included in rate base, as opposed to being removed from rate base. Given that these projects were forecast to be in CWIP in 2001, as indicated in the response to Cal-ATCO Gas.70(b), the projects were not included in the 2001 GRA rate base forecast. ATCO therefore reduced related capital expenditures for both test years, as well as 2001 work-in-progress. ATCO pointed out that the adjustment to the 2002 CWIP in the compliance filing is an adjustment for AFUDC unrelated to these projects.

Views of the Interveners

Calgary noted that ATCO made changes to Property, Plant and Equipment in addition to those provided for in Decision 2001-96. By way of an example, Calgary cited the year 2000 Depreciable Base balance for Distribution Services of \$156.659 million, which is \$5.6 million less than the balance in the original GRA. This difference is approximately \$500,000 higher than the total adjustment to opening Property, Plant and Equipment referred to in Decision 2001-96. Calgary expressed concern that ATCO had provided no support or justification for this additional change. Calgary noted that, notwithstanding the change in the 2000 depreciable base, the opening accumulated depreciation balance of \$280.102 million for 2001, shown in the compliance filing, is exactly the same as that contained in the GRA, meaning that, if the change to Depreciable Base is correct, the 2001 opening depreciation balance must be incorrect. Calgary calculated that the overstatement of accumulated depreciation was approximately \$117,600 ($\$5.6 \text{ million} \times 0.042 \times 0.5$, assuming a mid-year convention). Calgary also noted that an adjustment of

\$7,000 to year 2000 depreciation referred to in ATCO's compliance filing written evidence does not appear to be reflected in the opening balance of accumulated depreciation in Schedule 2.20.

Calgary questioned the basis for the increase of approximately \$900,000 in "non-utility" assets and related accumulated depreciation and contributions in the computation of utility rate base in the compliance filing. Calgary submitted that ATCO should be required to explain the nature of its non-utility activities that result in the increase to plant and contributions. Calgary considered that, if these are disallowed assets, they should be identified as such. Furthermore, Calgary questioned the specific tariff or rate under which ATCO would be entitled to collect contributions that have not been approved by the Board.

The MI pointed out that the Board's direction in Decision 2001-96 to remove the costs of the OPS/MMS and GMS projects from rate base did not include a direction to remove expenditures from CWIP. However, the MI noted that, in the compliance filing, ATCO has reduced CWIP for the test years to remove expenditures related to the OPS/MMS and GMS projects. The MI noted that removing these projects results in a lower CWIP balance but a higher balance of gross plant-in-service.

Views of the Board

The Board notes the adjustments made by ATCO to reflect the reduction to the 2001 opening balance of Property, Plant and Equipment pursuant to the direction in Decision 2001-96, and notes the methodology used in calculation of the adjustment to the 2001 opening accumulated depreciation balance. Given that in Decision 2001-06 the Board directed ATCO to reduce the opening balance of Property, Plant and Equipment, the Board considers that it should have been clear to ATCO that any other related balances should have been adjusted to incorporate actual amounts. The Board notes that this is consistent with previous practice as set out in Decision E89091, dated December 15, 1989, and Decision U97065, dated October 31, 1997, where the Board found that using forecast data for the year prior to the test years distorted opening balances for the test years when the actual results were available during the proceedings. The Board has reviewed the circumstances surrounding this issue and all of the information filed, and considers it appropriate that this issue be dealt with in the compliance filing. Accordingly, to avoid distortion of opening balances for the test years, the Board directs ATCO to revise the balances of all accounts included in the determination of the net Property, Plant and Equipment opening balance for 2001, to reflect actual amounts for the year 2000.

The Board notes the concerns of the MI regarding the removal of expenditures from CWIP, but considers that ATCO's proposal is appropriate, on the basis that the OPS/MMS costs of \$558,000 in 2001 were actually in CWIP, rather than rate base.

The Board acknowledges Calgary's concern regarding the transfer of \$900,000 to "non-utility" assets, and understands that this represents the cost of service line alterations in the year 2000 deducted from utility rate base, pursuant to the direction in Decision 2001-96. However, the Board is not persuaded that a transfer to the "non-utility" category is appropriate, on the basis that there is no indication that the costs of such service line alterations were treated in this manner prior to the year 2000. Accordingly, the Board directs ATCO to revise the compliance filing to reflect the accounting for this expenditure in a manner consistent with the methodology used by the Company prior to the year 2000.

3.3 Necessary Working Capital

Views of the Applicant

In the compliance filing, ATCO adjusted the Necessary Working Capital (NWC) balances for the test years, to reflect the application of a zero expense lag to the retained earnings component of common equity return and an expense lag for the dividend component based on the methodology used to calculate the preferred dividend lag. ATCO also recalculated the Operating and Maintenance (O&M) expense lag to incorporate a lag of 34.16 days for affiliate payments, as directed by the Board. However, ATCO did not adjust the Lead Lag study for transactions with ATCO Pipelines, as directed by the Board, since the Lead Lag study used by ATCO in the GRA did not incorporate the impact of transactions with ATCO Pipelines. However, for purposes of calculating the NWC balance, ATCO reduced O&M Expense by the charges related to ATCO Pipelines for the test years.

In the Update, ATCO noted Calgary's comment that, if certain storage adjustments, applied as amendments to the GRA in May 2001 (Exhibit 67), had been incorporated in the original GRA, the Company would have forecast common dividends for 2001 of zero (instead of \$9.85 million). ATCO pointed out that, that given the immateriality of the impact of changes to capital structure resulting from the change in storage, the revenue requirement associated with the storage adjustment was determined based on the forecast capital structure as filed in the GRA, noting that if the change to common dividends indicated by Calgary was reflected in the compliance filing, there would be an increase to revenue requirement of approximately \$139,000.

Responding to an issue raised by Calgary, ATCO was not aware of any direction in Decision 2001-96 requiring an adjustment to forecast natural gas supply costs, noting that while the implementation of the provincial government rebate program may have reduced the cost of gas supply to customers, it did not compensate ATCO in any way for the cost of natural gas supply. In the Update, ATCO provided support for the O&M expense used in the calculation of NWC in the compliance filing, and explained that the adjustment relative to the \$36.4 million of third-party storage was reflected in the 2001 test year revenue requirement, while there is no similar adjustment in 2002 as the matter is addressed through the COSRR.

Regarding the impact of deferred pension balances on NWC, ATCO noted that Decision 2001-105 states: "It was agreed that the January 1, 2000 deferred balances related to all pension costs will be included in necessary working capital."² In the Update ATCO stated that the response to AIPA-ATCO GAS. 10(i) indicated a balance of \$9.934 million as at January 1, 2000, which has been used in the NWC calculation in the compliance filing.

In the Update, ATCO provided support for the deferred hearing cost balances used in the NWC calculation in the compliance filing, and indicated that the expense amounts are based on the approved expense in Decision 2001-96, while the payment amounts are consistent with those forecast in the GRA. ATCO incorporated the NWC impact of the one-time recovery of hearing costs of \$4.452 million into the determination of the Hearing Cost Rider, resulting in a reduction of \$246,000 in the amount collectible from customers. ATCO indicated that since this rider is being recovered in 2002, it would not be appropriate to adjust 2001 NWC for this impact.

In response to a request from Calgary, ATCO provided a calculation of the GST component of NWC as a result of Decision 2001-96, and corrected a calculation error in the GST calculation.

² Decision 2001-105 dated December 31, 2001, p.4

ATCO indicated that the correction had an impact on revenue requirement of approximately \$11,000 (2001) and \$9,000 (2002), as reflected in the Update.

ATCO noted Calgary's comment that the increase in the GST component of NWC, together with the adjustments for the hearing cost reserve and deferred pension balances results in amounts in excess of those applied for, contrary to section 95 of the *Public Utilities Board Act* R.S.A. 2000, c. P-45 (PUB Act). ATCO submitted that although the impact of changes as a result of Decision 2001-96 results in an increase to the GST component of NWC and the Large Corporation Tax, it does not result in a higher revenue requirement or higher rates than originally applied for in the GRA. Accordingly, ATCO did not consider that there has been any contravention of section 95 in the compliance filing.

Views of the Interveners

Calgary expected that generally, natural gas supply costs in 2001 should have been reduced to reflect the Board's disallowance of ATCO's high gas cost forecast. Similarly, Calgary noted that the balance of natural gas stored in the NWC calculation appears inconsistent with information in the GRA, which indicated a balance of \$36.4 million at the end of December 2001. Calgary pointed out that this would result in a change in NWC for 2002.

Calgary expressed concern that no explanation was provided to support the adjustments to O&M Expense in the NWC calculation. Specifically, Calgary noted that the reduction to O&M Expense appears to include more than just the elimination of transmission expense payable to ATCO Pipelines.

With respect to the dividend component in 2001, Calgary noted that the inclusion of \$9.85 million in the NWC calculation is inconsistent with ATCO's comments filed with amendments to the GRA in May 2001. Specifically, ATCO then indicated that if certain storage adjustments, applied as amendments to the GRA by Exhibit 67, had been incorporated in the original filing, the Company would have forecast common dividends for 2001 of zero (instead of \$9.85 million). Calgary submitted therefore, that based on Exhibit 67, the full amount of the 2001 common equity return should be treated as retained earnings.

Calgary noted that the balances included in NWC for deferred pension and post-employment expenses, of \$9.904 million (2001) and \$9.934 million (2002) were not approved in Decision 2001-105. Calgary also noted that there may be a correlation between the NWC balance for deferred restructuring costs and the opening deferred pension balance. Based on the information provided in the Pension Application, Calgary stated that a significant portion of the increase in this account over 2000 is due to effectively recording the restructuring credit associated with pension as a reduction to restructuring expense, and an increase in deferred pension costs, allowing ATCO to capitalize and earn a return on the gain amount. Calgary found this approach objectionable, referred to specific evidence in the GRA to further illustrate the problem, and highlighted various inconsistencies between that evidence and information in the 1998 GRA compliance filing. Calgary submitted that the deferred pension balance reflected in the compliance filing should be disallowed.

Calgary recognized that the issue of deferred storage revenue would have to wait until the Carbon decision for resolution. However, noting that it is clear from the GCRR Filing that ATCO proposes to continue to use Carbon storage for 2002 and 2003, Calgary questioned the validity of eliminating this item from NWC.

Calgary noted that in Decision 2001-96, the Board stated that \$4.452 million should be eliminated from the deferred hearing cost account, and reflected through a rider. Calgary also noted that the Board also stated that ATCO could continue to collect \$524,000 per year for hearing costs. Calgary calculated that elimination of the rate rider amount should have resulted in a negative balance of \$291,000 at the end of 2001 in the hearing cost reserve, rather than the balance of \$4.161 million per the compliance filing, which includes the rate rider amount.

Calgary noted that ATCO provided no support for the increase in the GST component of NWC. Furthermore, Calgary noted that this increase, together with the adjustments for the hearing cost reserve and deferred pension balances, results in amounts in excess of those applied for. In Calgary's view, this appeared inconsistent with section 95 of the PUB Act.

Finally, Calgary stated that, as noted by the Board, the computer reserve deficiency account is an item that needs to be resolved after the Affiliate decision.

Views of the Board

The Board notes Calgary's submission that natural gas supply costs in 2001 should have been reduced to reflect the Board's disallowance of ATCO's high gas cost forecast, but agrees with ATCO's position that the Board's directions with respect to the issue of high gas costs only related to O&M Expense, and forecast revenues. With respect to Calgary's observation that the balance of natural gas stored in the NWC calculation appears inconsistent with information in the GRA, the Board notes that the balance is unchanged from the GRA, and is not an issue to be dealt with in the compliance filing.

Noting that Calgary also takes issue with the dividend component of equity return in the compliance filing on the basis of inconsistency with information in the GRA, the Board is satisfied that the treatment of the dividend in the NWC calculation is consistent with the treatment of capital structure and equity return in the GRA. The Board accepts ATCO's treatment of the equity return component of NWC in the compliance filing.

The Board acknowledges Calgary's concerns with respect to the balances included in NWC for deferred pension and post-employment expenses, but is satisfied that ATCO has complied with the intent of Decision 2001-105 in using the January 1, 2000 deferred balance in the determination of NWC. The Board noted Calgary's concern that a significant portion of the increase in the deferred pension account over 2000 is due to recording the restructuring credit associated with pension. However, the Board agrees with ATCO that this issue was dealt with in the GRA, and there appears to be no basis to deal with this issue in the compliance filing.

The Board considers that ATCO has correctly reflected the adjustments to the hearing cost reserve in the compliance filing and agrees with ATCO's proposal to incorporate the NWC impact of the one-time recovery of hearing costs into the determination of the Hearing Cost Rider, resulting in a reduction of \$246,000 in the amount collectible from customers.

The Board agrees with ATCO that Calgary's interpretation of section 95 of the PUB Act is incorrect in that an increase to the GST component of NWC does not result in a higher revenue requirement or rates higher than those originally applied for in the GRA. Accordingly, the Board does not consider that there has been any contravention of section 95 in the compliance filing. The Board notes that ATCO has revised the compliance filing to correct errors in the GST calculation pointed out by Calgary.

3.4 Capital Structure and Return on Rate Base

Views of the Applicant

In the compliance filing, ATCO incorporated a rate of return on common equity of 9.75% in conformity with Decision 2001-96, and reflected the necessary adjustments to capital structure to comply with the Board's 37% common equity requirement and the balancing of capitalization to rate base.

ATCO noted that, in Decision 2000-9, dated March 2, 2000, the Board departed from a long-standing tradition with respect to the determination of capital structure. ATCO pointed out that, as a result of that Decision, which the Board reaffirmed in Decision 2001-96, the Company has been allowed a deemed capital structure consisting of various debt and equity components equal to the utility rate base. Noting that the determination of that deemed capital structure has many complexities, ATCO considered that in approving a 37% common equity ratio, the Board did so with respect to the deemed capital structure, rather than the financial capital structure, which has no direct relationship to the deemed structure. ATCO considered that, if the Board were to accept Calgary's suggestion for use of the financial common equity to determine return on equity in 2001, the proportion of common equity would be reduced to 35.7%, which is not consistent with Decision 2001-96, and would result in an integrated common equity percentage for ATCO Gas and ATCO Pipelines (South) lower than 39%, which would also appear to be contrary to the Board's intent.

ATCO employed the methodology for balancing capital structure to rate base identical to the methodology pursuant to Decision 2000-9 and approved in Decision 2000-45, with the exception that long-term debt is used as the balancing item for adjustments to common equity, rather than preferred shares. ATCO submitted that use of long-term debt as the balancing item is consistent with the direction in Decision 2001-96, which indicates:

The overall level of deemed long-term debt will be determined as the remaining portion of the capital structure, after accounting for common and preferred equity, and no cost capital.³

ATCO stated that there is no indication in Decision 2001-96 that the Board intended to alter the determination of the deemed capital structure as approved in Decision 2000-9.

Views of the Interveners

Calgary noted the Board's statement in Decision 2001-96, that an equity ratio of 37% should be maintained for ATCO. However, as pointed out by Calgary in the GRA, and confirmed in the compliance filing, ATCO does not have 37% common equity in 2001. Calgary pointed out that, in the compliance filing, ATCO adjusted common equity up to the 37% level by a transfer from long-term debt. Calgary expressed significant concern with ATCO earning 9.75% after-tax on "phantom" common equity, noting that, if the revisions to the GRA applied pursuant to Exhibit 67 had been incorporated in the original GRA, ATCO would not have issued a dividend, with the result that ATCO would have had enough common equity. Calgary considered that the wording in Decision 2001-96 indicates that the Board expected that ATCO had 37% common equity. Given that it does not have that level of common equity, Calgary submitted that the amount used for purposes of calculating the return on common equity for 2001 should be based on the financial common equity before the transfer from long-term debt.

³ Decision 2001-96, p. 65

Calgary noted that achieving a common equity ratio of 37% in 2002 resulted in a transfer from common equity to long-term debt, and that the excess common equity has been treated as long-term debt to which the embedded cost of debt has been applied. Since the Board did not make any direction with respect to this excess common equity, Calgary submitted that it should be treated as part of short-term debt, since the adjustments will be made through short-term debt. Calgary objected to use of the equity adjustment to increase the long-term debt by \$3.094 million as shown in the compliance filing.

Views of the Board

The Board considers that ATCO is correct in stating that use of financial common equity to calculate return is inconsistent with the Board's approval of a 37% ratio based on a deemed capital structure, and that use of the financial common equity to determine return on equity in 2001 would result in a reduction to the common equity ratio below that approved in Decision 2001-96. Regarding Calgary's proposal to transfer the excess common equity in 2002 to short-term debt, the Board is satisfied that ATCO's proposal for transfer of the excess to long-term debt is consistent with the findings in Decision 2001-96.

3.5 Operating and Maintenance Expense

Views of the Applicant

ATCO reduced O&M expense in accordance with the directions in Decision 2001-96, and incorporated the impact of the change in transmission charge as a result of the ATCO Pipelines GRA compliance filing by \$2.262 million (2001) and \$2.483 million (2002).

ATCO also reduced forecast O&M expense by \$2.742 million (2001) and \$1.482 million (2002) as a result of Decision 2001-105, with respect to pension and other post employment expenses. ATCO pointed out that the change in pension expense identified in the Pension Application incorporated a change to the original GRA forecast related to supplemental pension expense. However, ATCO indicated that, as this change had not been incorporated in the original GRA, the actual reduction related to pension expense is greater than the amount identified in the Pension Application.

In response to a comment from Calgary regarding the potential overstatement of capitalized pension expense, ATCO indicated that when a significant change occurs such as the accounting for pension and other post employment benefits expense, it requires at least one year of actual history before the capital forecast methodology will incorporate the impact of such a change. In other words, no specific adjustment is made to capital expenditure forecasts as a result of the changes to pension accounting pursuant to Decision 2001-105. ATCO pointed out that capitalization of fringe benefits is incorporated into the capital expenditure forecast based on historical costs. ATCO stated that the main reason for estimating the amount of fringe benefits capitalized in a GRA is to ensure that the forecast O&M expense properly reflects the impact of such capitalization, rather than an attempt to identify the exact amount of fringe benefits, which have been included in the capital expenditure forecast.

ATCO also noted that, given that some of the fringe benefits capitalized would reside in CWIP during the test years, it would be almost impossible to determine the level of pension expense actually included in the approved rate base for 2001 and 2002. ATCO pointed out that this is compounded by the fact that the Board has reduced the level of capital expenditures allowed in rate base, which would also have included fringe benefits capitalized. ATCO considered

therefore, that an adjustment with respect to pension expense capitalized is not warranted, pointing out that the difference between pension expense capitalized on a cash basis and amounts capitalized historically cannot be properly determined and would not be material.

Views of the Interveners

Calgary noted ATCO's comments that the adjustment to O&M expense for pension, including post-employment benefits and supplemental benefits in Decision 2001-105 was understated by \$201,000 in 2001 and \$129,000 in 2002. Calgary believed however, that ATCO did not adjust capital additions to reflect the capital portion of post-employment benefits. Calgary referred to evidence in the Pension proceeding to support the conclusion that capital additions shown in the compliance filing are overstated by approximately \$225,000 (2001) and \$242,000 (2002).

Views of the Board

The Board considers that there is merit in Calgary's observation that there was no adjustment to capital additions in the compliance filing to reflect the capital portion of post-employment benefits as identified in the ATCO Pension proceeding, and agrees that the evidence in that proceeding points to a potential overstatement of capital additions in the compliance filing. However, the Board notes ATCO's explanation that the treatment of capitalizing fringe benefits is in accordance with the Company's accounting practices, and that any difference between expense capitalized on a cash basis and amounts capitalized historically would be not be material. The Board agrees with ATCO's observation that any such difference would be difficult to determine and that materiality is relevant to the determination of this issue, noting that the overstatement amounts referred to by Calgary represent approximately 0.5% of forecast capital additions, which is well within an acceptable range of forecasting error. Accordingly, the Board accepts ATCO's treatment of pension and post-employment benefit expense in the compliance filing.

3.6 Depreciation Expense

Views of the Applicant

In response to comments from Calgary, ATCO pointed out that two adjustments impact the amortization of contribution expense in the 2002 test year. The first adjustment relates to the transfer of \$506,000 to non-utility rate base in connection with contributions for service line alterations. ATCO indicated that, at an amortization rate of 2.11%, the reduction to utility amortization expense is \$11,000. The second adjustment relates to the increase of \$4.75 million in contributions related to services. ATCO assumed that 25% of the contribution would be amortized in 2002, which is consistent with the depreciation/amortization assumptions used in the GRA for all assets. ATCO indicated that, at a rate of 2.11%, the increase in amortization expense for 2002 related to this increase is \$25,000, and stated that the net impact of the two adjustments is an increase of \$14,000 on amortization expense for the 2002 test year.

Views of the Interveners

Calgary noted that net contributions in 2002 increased \$4.75 million, while amortization of contributions only changed by \$14,000. Calgary submitted that it is unrealistic for the contributions to increase by \$4.7 million, with a change of only \$14,000 in amortization, particularly when the vast majority of the contribution increase relates to Services (Account 473), which has an amortization rate of 2.11%. Calgary calculated that, based on the mid-year convention, the increase should be approximately \$50,000.

Calgary noted that the amount of computer reserve deficit is yet to be determined pending the Affiliate decision.

Views of the Board

The Board considers that ATCO's response to Calgary's request for clarification of depreciation adjustments provides adequate support for the depreciation calculations in the compliance filing.

3.7 Income Tax

Views of the Applicant

ATCO indicated that the current enacted income tax rates, incorporated in the compliance filing as per the directions in Decision 2001-96 are shown in the table below. ATCO pointed out that the Federal rate reduction is subject to the impact of Resource Allowance, and for this reason ATCO Gas is not able to recognize the full reduction in the Federal tax rate. The table below provides a calculation of the Federal rate that has been used in the compliance filing.

Enacted Tax Rates	<u>2001</u>	<u>2002</u>
Federal	27%	25%
Provincial	14%	13.5%
Total	41%	38.5%

ATCO indicated that Calgary's comments regarding the ongoing implications of the *Rainbow Pipelines* and *Canderel* decisions issued during the 1998 test year, appear to be entirely gratuitous, and considered that their relevance and appropriateness in this process is questionable.

In response to questions raised by Calgary, ATCO provided support for the derivation of Utility Net Income Before Tax in the compliance filing, demonstrating consistency with the methodology used in the GRA.

ATCO pointed out that, in the compliance filing, it can clearly be seen that net depreciation expense has decreased by \$505,000 (2001) and \$664,000 (2002) from the original forecasts, and the adjustments are consistent with depreciation information included elsewhere in the compliance filing. ATCO explained that the reduction of \$5.113 million to the 2001 opening UCC balance relates to the adjustment of \$4.719 million to the 2001 opening balance of Property, Plant and Equipment, and the transfer of \$394,000 in service line alterations (net of contributions) to non-utility rate base.

ATCO also explained that the reduction of \$1.174 million to 2001 CCA additions consists of the total capital expenditures reductions of \$1.732 million less \$558,000 of expenditures related to the OPS/MMS and GMS projects, which were in CWIP in 2001, and therefore not included in the original 2001 CCA additions. With respect to CCA additions for the 2002 test year, ATCO explained that the reduction of \$7.666 million, incorporates the reduction to capital expenditures of \$2.295 million as directed in Decision 2001-96, the increase of \$4.75 million in contributions related to services, and a reduction of \$621,000 for prior year expenditures related to the OPS/MMS and GMS projects, which were forecast to come into rate base and CCA in 2002. ATCO pointed out that \$63,000 of the \$621,000 reduction, related to expenditures forecast for the year 2000, and \$558,000 related to expenditures forecast for 2001.

ATCO acknowledged that corrections to the CCA additions identified in CAL-ATCO GAS.207(p) were inadvertently omitted from the compliance filing. In the Update, ATCO amended the CCA schedules and revenue requirement, noting that with this correction, all relevant adjustments to the CCA schedules as a result of Decision 2001-96 have been incorporated.

ATCO pointed out that the amount of the “potential refund to customers” in the compliance filing is a forecast, which has not changed from the GRA, and explained that change in tax reduction associated with this amount results from the change in income tax rates. However, ATCO noted that there is no income tax expense impact associated with the refund adjustment, but an impact only on income tax payable for NWC purposes.

ATCO explained that the change in the Non-utility Net Income Before Tax for 2001 is due to the transfer of donations to non-utility O&M (\$217,000), an increase (\$29,000) in depreciation expense due to the transfer of service line alterations to non-utility, and changes (\$182,000) in AFUDC and short-term interest income/expense.

Views of the Interveners

Calgary pointed out that the *Rainbow Pipelines* decision and the *Canderel* decision were not an isolated “transaction” which occurred outside of the test-year, but rather are decisions of the Courts, which occurred during the 1998 test-year, and under Canadian common law have ongoing implications.

Calgary identified a number of adjustments reflected in the compliance filing relating to determination of the 2001 income tax provision, many of which do not appear to bear a direct relationship to the Decision or the rest of the compliance filing. Calgary also noted, on the other hand, examples of adjustments, which should have been made but were not. Calgary referred to the calculation of Income Tax Provision, indicating that:

- utility net income appears to be \$38,000 less than would be expected;
- depreciation expense is reduced by \$505,000, which is inconsistent with the information on the depreciation expense schedule where gross depreciation expense changes by \$257,000, and net depreciation expense changes by \$245,000;
- CCA (Federal) for 2001 is reduced by \$320,000, which is inconsistent with other adjustments to Property, Plant and Equipment and CCA. In particular, the reduction of \$1.174 million in CCA additions for the current year (2001) is less than the \$1.46 million reduction in plant directed by the Board.
- there is no reconciliation or proof that the adjustment in 2001 relating to the potential refund to customers was in fact \$23.793 million;
- the reduction in non-utility income of \$428,000 (from \$2.105 million to \$1.677 million) is totally unexplained and increases the utility income tax expense.

Referring to the income tax provision for 2002, Calgary noted that:

- the reduction to Utility Net Income of \$9.051 million does not appear to reconcile to anything, and the reduction should be \$7.108 million when the adjustment to common and preferred equity is taken into account;
- based on Calgary’s calculations (provided with the submission), the amount of Utility Net Income \$32.696 million shown in the calculation of Income Tax Provision is wrong

- the reduction to depreciation expense is \$664,000, while in the depreciation expense schedule, the difference in gross depreciation is only \$403,000 and in net depreciation only \$406,000;
- CCA (Federal) has been reduced by \$1.474 million, which is inconsistent with other adjustments to capital and CCA. Further, as is the case in 2001, it should have been expected that for the items shown in response to CAL-ATCO GAS 207(p), adjustments would have changed as a result of Decision 2001-96. Again, however, no information with respect to those changes has been provided.
- the reduction in non-utility income of \$1.196 million (from \$2.08 million to \$884,000) is totally unexplained, and increases the utility income tax expense.

Views of the Board

The Board considers that ATCO's detailed responses to Calgary's request for clarification of various income tax adjustments address the issues raised by Calgary and provide adequate support for the income tax calculations in the compliance filing. The Board notes that the explanations show the tax impact of other adjustments discussed elsewhere in the compliance filing and demonstrate consistency with the methodology adopted in the GRA.

The Board is satisfied that ATCO has reflected the income tax impact of adjustments made to other components of revenue requirement pursuant to the directions in Decision 2001-96, and expects ATCO to ensure that the determination of income tax in the compliance filing is revised as necessary to achieve consistency with the directions in this Decision.

3.8 Deferred Income Tax

Views of the Applicant

In the compliance filing, ATCO adjusted the deferred income tax calculation to incorporate the impact of Decision 2001-96 on hearing costs and Decision 2001-105 on pension costs.

Referring to a comment from Calgary, ATCO considered that the calculation of deferred income taxes related to rate case expenses is appropriate, given that the Board has not altered the treatment of those costs as a result of the one-time recovery through a rate rider. ATCO referred to the comments in Decision 2001-96 indicating that the Board "agrees with ATCO that the deferral of rate hearing costs is appropriate."

With respect to deferred income taxes related to pension expense, ATCO explained that a timing impact arising as a result of the "estimated" capitalization of pension expense is the component being deferred. ATCO noted that Decision 2001-96 approved the continuing deferral of income taxes associated with pension expense.

In response to questions from Calgary regarding the deferred income tax balances reflected in the Company's balance sheet, ATCO indicated that questions relating to deferred taxes were addressed in the GRA proceeding, and considered that the compliance filing process was not the appropriate forum to deal with comments with respect to this matter.

Views of the Interveners

Calgary stated that it is not apparent why ATCO continues to calculate deferred income taxes with respect to rate case expenses, in light of the Board's decision to remove most of those costs

from cost of service to be dealt with by rider. Calgary saw no need to reflect the rate case expense through deferred income taxes.

Calgary pointed out that Decision 2001-105 approved the use of a cash basis with respect to pension expense. Therefore, Calgary submitted that there should be no timing differences and no need to record deferred income taxes with respect to pension expense.

Calgary noted that the Balance Sheet included with the compliance filing shows deferred income taxes collected of \$7.181 million (2001) and \$6.107 million (2002), but ATCO has provided no reconciliation to support the timing differences and amounts covered by these deferred taxes. Furthermore, Calgary considered that customers have received no benefit from the over-collection of \$6.107 million at the end of 2002 in their rates, notwithstanding the fact that the majority of these deferred taxes are shown as long term. Calgary submitted that, under ATCO's proposed treatment, customers are then expected to pay the Large Corporation Tax on \$6.347 million, which is the long-term portion of this amount in 2002.

Views of the Board

With respect to Calgary's concern regarding the treatment of deferred taxes for rate case expense, the Board agrees with ATCO that the one-time recovery of hearing costs by rate rider does not alter the treatment of those costs. The Board therefore considers that calculation of deferred income taxes related to rate case expense continues to be appropriate.

The Board is satisfied with ATCO's explanation for inclusion of timing differences in the calculation of deferred income taxes related to pension expense, and agrees with ATCO that other questions relating to deferred taxes were addressed in the GRA proceeding, which was the appropriate forum to deal with these issues.

3.9 Large Corporation Tax

Views of the Applicant

ATCO agreed with Calgary that there were errors in the compliance filing with respect to the 2001 short-term investment amount used in the calculation of the Large Corporation Tax, and the embedded cost rates for the long-term debt in 2002. ATCO explained that these errors have been rectified in the Update.

ATCO explained that amounts "owed to or from parent and affiliates" in the compliance filing consist of affiliate accounts payable net of receivables as per the Company's balance sheet, and indicated that the amounts in the compliance filing have not changed from the GRA.

Views of the Interveners

Calgary noted that Large Corporation tax expense, as reflected in the compliance filing, is greater than that applied for in the GRA, which Calgary submitted is contrary to section 95 of the PUB Act. In addition, Calgary noted inconsistencies between the balance sheet and the calculation of Large Corporation Tax. Specifically, Calgary pointed out that short-term investments are reflected in the tax calculation as \$12.223 million compared to \$14.293 million on the balance sheet, and Amounts Due To/From Parent and Affiliates do not appear to reconcile.

Calgary expressed concern that, under the ATCO treatment, customers have to pay Large Corporation Tax on deferred income taxes and customer deposits, but in neither case get the credit for zero cost capital.

Views of the Board

The Board is satisfied that ATCO has rectified concerns identified by Calgary, and adequately explained questions raised with respect to the computation of Large Corporation Tax in the compliance filing. Also, for the reasons stated previously in this Decision, the Board does not agree with Calgary that there has been any contravention of section 95 of the PUB Act in this context.

3.10 Statement of Earnings

Views of the Applicant

ATCO presented the information in the Statement of Earnings, consistent with the GRA format.

Views of the Interveners

Calgary considered that the Statement of Earnings is completely misleading, in that the amount designated to the Utility, included under the heading “Earnings Attributable to Common” is incorrect since none of the long-term debt or preferred shared dividends associated with the utility are reflected as a utility expense. Calgary pointed out that the information does not reconcile with the balance sheet or the capital structure schedule. Calgary submitted that ATCO should be required to show the appropriate net income attributable to common equity that impacts the retained earnings and the capital structure of the utility.

Views of the Board

The Board recognizes that the format of the Statement of Earnings in the compliance filing is consistent with the GRA format, noting that the format was not challenged during the GRA process, which was the appropriate forum to deal with the issues raised by Calgary.

3.11 Revenues

Views of the Applicant

In compliance with Decision 2001-96, ATCO recalculated customer consumption and resulting forecast revenues to exclude the adjustment for the effect of higher gas prices. ATCO also removed revenue of \$13.92 million for 2002 with respect to the storage revenue from ATCO Midstream, and proposed that this amount be addressed through the storage rider in the GCRR Filing. ATCO indicated that the determination of the storage rider will incorporate storage revenue and the working capital impact of Storage Gas as directed by the Board in Decision 2001-75.

ATCO submitted that it has complied with Decision 2001-96 with respect to the revenue adjustment in the compliance filing, and in the Update, provided details of the billing determinants as forecast in the GRA and the adjusted billing determinants as directed by the Board in Decision 2001-96.

Views of the Interveners

Calgary was unable to determine the appropriateness of the adjustments for revenues calculated by ATCO, since billing determinants were not provided. However, based upon the information in

the GRA and in Decision 2001-96, Calgary considered that the 2002 revenue did not appear understated assuming that 2002 customer additions were spread evenly throughout the year and that a mid-year number could be used.

The MI noted that ATCO removed revenue of \$13.92 million for 2002 with respect to the storage arrangement with ATCO Midstream. The MI noted however that, in the GCRR Filing, ATCO appears to have reflected only \$12.054 million as a credit to the COSRR. The MI submitted that these amounts must be reconciled.

Views of the Board

The Board notes that, in response to Calgary’s request for clarification, ATCO provided details of the billing determinants as forecast in the GRA and the adjusted billing determinants as directed by the Board in Decision 2001-96. The Board is satisfied that the information provided supports the revenues included in the compliance filing, and considers that ATCO has adequately explained the difference in revenue from Midstream of \$13.92 million and the related amount reflected in the determination of the COSRR.

4 SUMMARY OF DIRECTIONS

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the report, the wording in the main body of the Decision shall prevail.

- (1) However, the Board agrees with Calgary’s concern that costs transferred to the GCRR, such as bad debt expense/penalty revenues, have not been reflected in the determination of the 2002 shortfall, and considers that the compliance filing should be adjusted to reflect the impact of those transfers on revenue requirement for 2002. The Board therefore directs ATCO to adjust the compliance filing to reflect the impact of amounts transferred from base rates in the GCRR Filing. 6
- (2) Accordingly, to avoid distortion of opening balances for the test years, the Board directs ATCO to revise the balances of all accounts included in the determination of the net Property, Plant and Equipment opening balance for 2001, to reflect actual amounts for the year 2000. 8
- (3) Accordingly, the Board directs ATCO to revise the compliance filing to reflect the accounting for this expenditure in a manner consistent with the methodology used by the Company prior to the year 2000. 8

5 ORDER

THEREFORE, IT IS ORDERED THAT:

- (1) The rate base, revenue requirement, and forecast revenues of ATCO Gas South for 2001 and 2002 as set out in the compliance filing are hereby approved on an interim refundable basis, pending final determination of the revenue requirement for the test years after the

Board has issued decisions on the ATCO Affiliates and ATCO Gas Carbon Storage Transfer proceedings.

- (2) ATCO Gas South will be required to submit a second compliance filing to adjust the amounts, included as “placeholders” in the revenue requirement and revenues for the test years, after the Board has issued decisions on the ATCO Affiliates and ATCO Gas Carbon Storage Transfer proceedings.
- (3) In the second compliance filing, ATCO Gas South shall adjust the revenue requirement for the test years to reflect the impact of Board directions in this Decision and in the ATCO Affiliates and ATCO Gas Carbon Storage Transfer decisions.
- (4) ATCO’s proposed collection of revenue shortfalls for 2001 and 2002 and one-time collection of hearing costs, as documented in Schedule “A” attached, are hereby approved on an interim refundable basis pending determination of final rates in the Phase II process. The collections are based on forecast consumption from June 1, 2002 to December 31, 2002.

Dated in Calgary, Alberta on May 30, 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>

C. Dahl Rees
Acting Member

SCHEDULE "A" – CALCULATION OF COLLECTION RIDERS

REVENUE SHORTFALLS FOR 2001/2002

Rate	2002 Revenue on Existing Rates (\$000)	% of 2002 Revenue	Share of 2001/2002 Revenue Requirement Shortfall (\$000)	Forecast 2002 Consumption Jun-Dec TJ	Proposed Rider \$/GJ
1/11	141,315	90.44	14,237	37,393	0.381
3	11,528	7.38	1,161	8,638	0.134
5/18	726	0.46	73	772	0.095
13	2,685	1.72	271	4,938	0.055
Total	156,254	100.00	15,742	51,741	

ONE-TIME COLLECTION OF HEARING COSTS

Rate	2002 Revenue on Existing Rates (\$000)	% of 2002 Revenue	Share of Hearing Costs (\$000)	Forecast 2002 Consumption Jun-Dec TJ	Proposed Rider \$/GJ
1/11	141,315	90.44	3,804	37,393	0.102
3	11,528	7.38	310	8,638	0.036
5/18	726	0.46	20	772	0.025
13	2,685	1.72	72	4,938	0.015
Total	156,254	100.00	4,206	51,741	