



ATCO Gas South

**Rider D Adjustment Resulting from Revisions to
Rates for Unaccounted for Gas (UFG)**

August 26, 2002

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2002-078: ATCO Gas South

Rider D Adjustment Resulting from Revisions to Rates for Unaccounted for Gas (UFG)

Application No. 1272241

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

ATCO GAS SOUTH RIDER D ADJUSTMENT RESULTING FROM REVISIONS TO RATES FOR UNACCOUNTED FOR GAS (UFG)

**Decision 2002-078
Application No. 1272241
File No. 1306-3-2**

1 INTRODUCTION

In Decision 2001-97 dated December 12, 2001, the Board approved the proposal by ATCO Pipelines South (APS), a division of ATCO Gas and Pipelines Ltd.,¹ to establish separate Unaccounted for Gas (UFG) rates for volumes delivered on the APS transmission and ATCO Gas South (AGS) distribution systems respectively. The Board further approved the 2.3:1 ratio proposed by APS for allocation of UFG between the distribution and transmission systems, as a representative average ratio that was applicable to splitting the APS blended UFG. In Decision 2002-049 dated May 30, 2002, the Board acknowledged that the adjustment to the AGS Deferred Gas Account (DGA) resulting from the change in the UFG allocation and rate was \$4.4 million, representing amounts over-collected through Rider D for volumes delivered on the APS transmission system at the combined UFG rate previously in effect in 2001.

On June 14, 2002, AGS filed an application (the Application) requesting approval of its proposal for collection of the adjustment to the DGA. In the Application, AGS indicated that the Rider D over-recovery had been revised to \$4.1 million (net DGA adjustment), to recognize the under-collection of \$0.4 million from distribution transportation Rate 11 and Rate 13 customers. AGS stated that the net DGA adjustment represents an under-collection from core customers, which will be recovered from those customers through an adjustment to the DGA. Specifically, AGS proposed to recover the under-collection by application of a fixed amount of \$0.303/GJ to the Gas Cost Recovery Rate (GCRR) for the months of August to October 2002. To recognize the unique consumption pattern of Rate 5 customers, and the related effect on the apportionment of the net DGA adjustment, AGS proposed application of a credit rider of \$0.110/GJ for the Rate 5 class.

By letter dated July 3, 2002, the Board invited interested parties to provide comments on the Application by July 12, 2002. The Municipal Intervenors (MI) and the City of Calgary (Calgary) filed letters dated July 12, 2002 and July 13, 2002, respectively in response to the Board's request for comments. The parties requested that AGS:

- provide detailed support for derivation of the year 2001 UFG rates for transportation customers (0.592%) and distribution customers (2.108%);
- provide information on actual system losses for 2001 (and the first six months of 2002) and determine the UFG percentages based on those actual losses;

¹ ATCO Gas and Pipelines Ltd. comprises two divisions, ATCO Gas and ATCO Pipelines. Each division is subdivided into North and South, i.e. ATCO Gas North, ATCO Gas South, ATCO Pipelines North and ATCO Pipelines South.

- consider application of the adjustment to the DGA based on actual as opposed to forecast UFG;
- explain the rationale for collection of the UFG under-recovery over a three month period as opposed to the 12 month period for collection of the March 31, 2002 DGA balance as proposed in a separate application to the Board;
- explain the rationale for application of a Rate 5 credit based on the July-October time frame as opposed to August–October.

The Board agreed that these matters could best be addressed in a written process and, by letter dated July 17, 2002, requested that AGS and interested parties file related submissions in accordance with the following timetable:

- AGS response to requests for additional information/support July 26, 2002
- Argument (all parties) August 9, 2002
- Reply Argument (if required) August 16, 2002

In the July 17, 2002 letter, the Board acknowledged that the time required to complete the written process would preclude incorporation of a portion of the under-recovery in the August 2002 GCRR application, as proposed in the Application. Accordingly, the Board requested that AGS revise its proposal to reflect collection of the net DGA adjustment commencing in September 2002.

2 SUBMISSIONS FROM AGS AND INTERESTED PARTIES

2.1 AGS

By letter dated July 26, 2002, AGS filed its response to requests by interested parties for additional information. With the letter, AGS included its proposal for collection of the net DGA adjustment commencing in September 2002 as requested by the Board. Consistent with the Application, AGS indicated the need to ensure that the amount of the monthly collection is set at a level that will recognize the unique consumption pattern of Rate 5 customers. AGS filed two separate proposals for collection of the under-recovery. Specifically, AGS estimated that collection of the under-recovery with a monthly amount of \$0.189/GJ from all customer classes based on total system consumption between September-November (Proposal A) would result in a shortfall from Rate 5 customers of \$47,000, and that a monthly amount of \$0.118/GJ based on total system consumption between September-December (Proposal B) would result in a Rate 5 shortfall of \$58,000. Under Proposal A, all customers would be charged a monthly amount of \$0.187/GJ during the months of September to November, and the shortfall of \$47,000 would be collected from Rate 5 customers by application of a rider of \$0.287/GJ during the months of September and October. Under Proposal B, all customers would be charged a monthly amount of \$0.117/GJ during the months of September to December, and the shortfall of \$58,000 would be collected from Rate 5 customers by application of a rider of \$0.358/GJ during the months of September and October.

On August 7, 2002, AGS filed a revision to the Application to correct an error in the calculation of the amount owing by Rate 11 and Rate 13 customers. Correction of the error increased the

total adjustment to the DGA from \$4.1 million to \$4.2 million. AGS advised the Board that, as a result of the correction, the proposals for collection of the net DGA adjustment were revised as follows:

- under Proposal A, all customers would be charged a monthly amount of \$0.191/GJ during the months of September to November, and the shortfall of \$47,000 would be collected from Rate 5 customers by application of a rider of \$0.291/GJ during the months of September and October;
- under Proposal B, all customers would be charged a monthly amount of \$0.120/GJ during the months of September to December, and the shortfall of \$58,000 would be collected from Rate 5 customers by application of a rider of \$0.363/GJ during the months of September and October.

AGS noted that the AUMA supported the application for the recovery of UFG and took the position that the Application reflects the methodology approved in Decision 2001-97.

In response to Calgary's concerns, AGS provided certain background information to place the Application in context, including information on Board Decisions issued in the early 1990s that included the direction that recovery of UFG should be based on a three year rolling average of actual UFG experienced and that no reconciliation between actual and recovered UFG would be conducted. AGS also indicated that, in the late 1990s, the Board approved a modification to the utility's transportation service regulations, in which AGS proposed recovery of UFG based on physical deliveries to end-use transportation customers, sales customers and NGTL interconnections.

In response to the measurement issues raised by Calgary, AGS submitted that these issues are not relevant to the Application, in that measurement errors have no impact on the methodology and allocation of UFG recovery determined by the Board in Decision 2001-97. AGS argued that, while daily balancing, pressure maintenance, and line pack variability are integral to a discussion on the operation of the pipeline network and allocation of costs between customers, these topics have no relevance in terms of compliance with the Board's direction in Decision 2001-97. AGS pointed out that the Application results directly from the direction in Decision 2001-97, and basically represents a compliance filing.

AGS referred to Calgary's argument that the Application be deferred until the AGS 2001/2002 Phase II General Rate Application (GRA), on the basis that the measurement errors in question would have altered the debate on the methodology used to recover UFG had they been known at the time of UFG deliberations in the APS 2001/2002 GRA. AGS rejected this position, and addressed the following factual errors in Calgary's argument:

- AGS was unaware of the measurement errors (Jumping Pound and Carbon Storage) at the time of the AGS and APS GRA proceedings and therefore could not have reported them;
- since forecast revenue requirement is being tested in GRA proceedings, actual measurement errors have no relevance;

- while the Jumping Pound error is associated with the APS system, the Carbon Storage error is not. Carbon Storage is associated with AGS and the resolution of this error rests directly with AGS and its customers;
- there is no impact to the allocation of UFG and no misallocation among customers as a result of any measurement error. The potential for misallocation is only possible where there is reconciliation between the actual UFG experienced and the corresponding recovery from specific customers. As described above, the Board does not require reconciliation between UFG recovery and actual UFG because of the related administrative burden.

AGS submitted that actual UFG in any given period has no bearing on the selection of a methodology to recover UFG from customers of the pipeline system. AGS pointed out that, in the APS 2001-2002 GRA, the APS proposal for an allocation of system-wide UFG was based on information on the experience of United States companies, which was considered to be the most comparable evidence available.

AGS conceded that, while measurement errors are regrettable and every effort is made to minimize them, correction of a measurement error results in a change to actual UFG for the year(s) affected, which in turn will change the rolling three year average and the future system-wide UFG recovery rate.

With respect to the Jumping Pound issue, AGS pointed out that the error quantity was balanced in the pipeline system through delivery to AGS's sales customers, meaning that when the error occurred, AGS's sales customers were in effect, subsidized by APS's transportation customers. AGS submitted that it is entirely inappropriate to attempt to establish a relationship between the Rider D Adjustment and DGA Reconciliation Applications and that such a position should be rejected outright.

AGS stated that the Board approved the UFG methodology, which has now been implemented for 2001 and 2002, through the distribution/transmission ratio applied to the approved Rider D rate in effect for 2001. AGS pointed out that APS has filed and received approval for the portion of the 2001 UFG recovery applicable to transmission customers, and that with the Application, AGS seeks approval to collect the portion applicable to distribution customers.

AGS considered that the issues surrounding the change to UFG methodology proposed by APS were fully canvassed in the APS GRA, where interested parties were given ample opportunity to test APS evidence, cross-examine and present argument. AGS submitted that there is nothing further to consider regarding the derivation and application of the 2001 UFG recovery rate to distribution transportation and sales customers. AGS stated that the only outstanding matter for consideration is approval of the manner in which the cost recovery is to be undertaken. AGS submitted that approval of the Application should be granted.

2.2 AUMA

By letter dated August 9, 2002, the Alberta Urban Municipalities Association (AUMA) indicated that the derivation of transmission and distribution UFG rates, as provided by AGS in its August 7, 2002 submission, appeared to reflect the methodology approved by the Board in

Decision 2001-97. The AUMA was satisfied that review of UFG history for 2001 and 2002 addressed any concerns with respect to use of forecast as opposed to actual UFG.

The AUMA expressed a preference for Proposal A (September through November recovery) over Proposal B on the basis that current gas prices are relatively low as is consumption in the months of September through November. The AUMA considered that an additional charge over this period would not be noticed by most customers, as much as an additional charge in December when volumes are typically more significant.

2.3 Calgary

Calgary submitted that the Application for a Rider D Adjustment was premature and should be deferred and dealt with as part of the AGS 2001/2002 GRA Phase II. Calgary considered that deferral of this issue was appropriate given the significant measurement errors revealed by ATCO since the issue of Decision 2001-97. In this context, Calgary referred to the resolution of a measurement error at Jumping Pound, which the Board in Decision 2002-066, dated July 23, 2002, deferred to the forthcoming AGS 2001/2002 GRA Phase II pending completion of studies to be filed by AGS in that proceeding. Calgary submitted that, rather than consider issues impacting Rider D allocations in numerous proceedings, it would be more efficient to consider all these issues in one proceeding, namely the AGS 2001/2002 GRA Phase II.

Calgary discussed the specifics of the error at Jumping Pound highlighted by AGS in a DGA application filed on June 13, 2002, and a separate measurement error at Carbon which had been brought to light on March 12, 2002 during the ATCO Carbon Transfer Proceeding. Calgary expressed concern that the combined impact (2,647 TJ) of these two measurement errors could have a material impact on the allocation of UFG to AGS customers not only in the current Application, but also in all future applications. Calgary noted that both measurement errors occurred on the APS system, not the AGS system, yet the errors are now being allocated to the AGS UFG. Calgary pointed out that neither the Board nor interested parties had the benefit of this information during the APS 2001/02 GRA, and submitted that that the impact of the errors on the allocation of UFG and any related misallocation must be addressed by the Board prior to any adjustment to Rider D as requested by AGS in this Application.

Calgary submitted that the Board should defer the application by AGS for a Rider D adjustment and recovery of the \$4.4 million, and deal with these issues as part of the AGS 2001/2002 Phase II GRA, at which time the appropriate UFG methodology and allocation ratios can be reviewed in light of:

- the serious measurement errors that occurred on the APS system;
- the appropriate methodology for charging imbalances to the DGA; and
- the studies and information the Board has directed AGS to file in the 2001/2002 Phase II GRA.

Calgary submitted that the arguments of AGS and the AUMA failed to address the fundamental impact of the factors raised by Calgary in respect of the Application. Calgary stated that neither party:

- has addressed the impact of the recently discovered measurement errors which have the potential to significantly alter both the total amount of UFG and the allocation of UFG between AGS and APS customers;
- has acknowledged Decision 2002-66, which requires AGS to conduct system studies, which have the potential to alter the allocation of UFG between AGS and APS. These studies are scheduled for review in the forthcoming AGS 2001-2002 GRA Phase II proceeding;
- has addressed the impact that the appropriate methodology for charging imbalances will have on the implementation of Rider D.

Calgary considered that, in failing to address these issues, the parties have ignored potentially significant impacts on the Application. Calgary argued that, furthermore, it is illogical for AGS to suggest that the allocation approved for APS UFG signifies implicit approval of the same type of allocation for AGS. Calgary pointed out that, in Decision 2001-97, the Board accepted the APS proposal on the basis that it was an attempt to charge UFG on the basis of cost causation and relative responsibility. Calgary submitted that adopting AGS's proposal would result in allowing AGS to act simply as a conduit for APS. Calgary considered that instead, AGS should undertake an examination to determine if the amounts to be recovered are appropriate in the context of the circumstances that led to the acknowledgement of the Carbon and the Jumping Pound measurement errors.

In Calgary's view, failure to address these issues will only lead to additional proceedings, increased regulatory time and cost, and potentially inconsistent decisions. Calgary submitted that the AGS application is premature, and that all of the issues identified must be addressed in one proceeding. Calgary stated therefore, that neither of the two AGS proposals should be accepted at this time.

3 BOARD FINDINGS

The Board notes Calgary's recommendation for deferral of the Application pending resolution of certain measurement errors and imbalance issues in the context of the AGS 2001-2002 Phase II GRA. On the other hand, the Board notes the position of AGS with respect to the issues raised by Calgary. The Board acknowledges that the process leading to the directions in Decision 2001-97, issued with respect to the APS 2001-2002 GRA, addressed the APS proposal for allocation of the prevailing UFG rate to transmission and distribution customers, and not the methodology to determine future UFG rates based on AGS's historical experience. Specifically, the APS proposal for allocation of system-wide UFG, in the APS 2001-2002 GRA, was based on information on related experience in the United States, considered to be the most comparable evidence available at that time. Nevertheless, the Board agrees with AGS that the Application results directly from the direction in Decision 2001-97, and effectively represents a filing to ensure full compliance with the directions in that Decision.

The Board agrees with Calgary that the measurement errors and imbalance issues are of concern, and need to be resolved in the context of the AGS 2001-2002 Phase II, as already directed in Decision 2002-66. However, the Board is not persuaded that these errors have any impact on the

allocation of UFG as determined in Decision 2001-97. The Board agrees with AGS that correction of measurement errors will result in a change to actual UFG for the years affected, which in turn will change the rolling three year average and the calculation of future system-wide UFG recovery rates. The Board further notes that the AUMA is satisfied that the Application appeared to reflect the methodology approved by the Board in Decision 2001-97. Accordingly, the Board accepts AGS's proposal for recovery of the \$4.2 million DGA adjustment by allocation of a fixed amount in the derivation of the monthly GCRR applied to all DGA rate groups. The Board notes the alternative proposals included in the Application (Proposals A and B) for collection of the adjustment. For the reasons provided by the AUMA, the Board accepts AGS's Proposal A for collection of the adjustment over the months of September to November 2002, as set out in Schedule A to this Decision.

4 ORDER

THEREFORE, IT IS ORDERED THAT:

For ATCO Gas South:

- (1) The monthly amounts, which equate to \$0.191/GJ on a forecast basis, as set out in Schedule "A" attached to and forming part of this Decision, are hereby fixed and approved for inclusion in the Gas Cost Recovery Rate applicable to all sales service rates, effective on all metered consumption on and after September 1, 2002, up to and including November 30, 2002.
- (2) The Rate 5 Rider of \$0.291/GJ, as set out in Schedule "A" attached to and forming part of this Decision, is hereby fixed and approved for Rate 5 customers, effective on all metered consumption on and after September 1, 2002, up to and including October 31, 2002.

Dated in Calgary, Alberta, on August 26, 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"

RECOVERY SCHEDULE – ALL RATE CLASSES

	Units	Sep 2002	Oct 2002	Nov 2002	Total
Forecast Calendar Sales	TJ	4,265	6,832	10,542	21,639
Proposed Recovery Amount	\$000's	815	1,306	2,015	4,136
Unit Rate Impact	\$/GJ	0.191	0.191	0.191	0.191

RATE 5 RIDER

Line	Description	Units	Reference	Value
1	Estimated Rate 5 share of Rider D Shortfall	\$,000		78
2	Forecast share recovered from Rate 5 via proposal A	\$,000		31
3	Forecast credit (debit) required to be indifferent	\$,000	Line 2 minus Line 1	(47)
4	Rate 5 forecast consumption Sep – Nov 02	TJ		162
5	Credit (Debit) Rider	\$/GJ	Line 3 divided by Line 4	(0.291)