



ATCO Gas

**2003/2004 General Rate Application
Interim Rate Application**

December 24, 2002

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2002-115: ATCO Gas
2003/2004 General Rate Application
Application No. 1284374

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1 INTRODUCTION

ATCO Gas (ATCO) filed a 2003-2004 General Rate Application (GRA) on August 2, 2002, and the Board established a process and schedule for the GRA in a Notice dated September 6, 2002. On November 27, 2002, ATCO filed an application (the Application) with the Board requesting approval of proposed rates on an interim refundable basis. ATCO proposed that the interim rates would be effective January 1, 2003 and reflect increases from existing 2002 rates of \$18.6 million for ATCO Gas North (AGN) and \$10.2 million for ATCO Gas South (AGS).

2 PARTICULARS OF THE APPLICATION

ATCO provided the following information in support of the Application:

- The forecast revenue shortfall as identified by ATCO in the ATCO Gas South 2001/2002 GRA is approximately \$10.2 million, and the Phase I portion of that GRA is in the final stages of completion. ATCO considered it unlikely that the shortfall finally approved would change significantly from the identified amount of \$10.2 million. ATCO submitted therefore, that it would be appropriate to introduce rates in the South that would reflect at least this level of increase. The identified shortfall amount represents 43% of the 2003 revenue shortfall in the South of \$23.7 million as forecast in the 2003/2004 GRA.
- The 2003 revenue shortfall in the North is \$43.2 million, as forecast in the 2003/2004 GRA. ATCO submitted that it would be appropriate to introduce rates in the North that would reflect the same percentage increase as proposed for the South. Accordingly, ATCO proposed that the interim rates in the North should reflect an increase of \$18.6 million (43% of \$43.2 million).

ATCO has forecast a 2003 revenue shortfall for AGS of \$23.7 million and for AGN of \$43.2 million, totaling \$66.9 million. ATCO indicated that, to minimize rate shock and maintain intergenerational equity, it would be in the best interests of customers to implement an interim increase in rates for both the North and the South that recovers a portion of the forecast revenue shortfall. ATCO also indicated that an interim increase in the level proposed would be consistent with the last approved increase for Northwestern Utilities Ltd (NUL) and is in the range of historic approvals for NUL and Canadian Western Natural Gas Ltd (CWNG). ATCO provided excerpts from previous Board Decisions to support this position, and to demonstrate the Board's previously held position that, for the purpose of setting interim rates, the energy, fixed and demand charges of a utility should be adjusted across-the-board.

Accordingly, ATCO proposed that the interim increase be applied to all customer rates on an across-the-board basis, and provided detailed calculations of the billing determinants and proposed rates for each rate class for North and South customers. The calculations indicated an increase in forecast revenue for the 2003 test year of 6.2% in the South and 11.6% in the North, resulting in an increase in the annual delivery charge for a typical residential customer of \$31 in the North and \$18 in the South.

By letter dated November 28, 2002, the Board requested that interested parties provide submissions with respect to the Application no later than December 6, 2002, and that ATCO provide a response to those submissions by December 13, 2002. Submissions were received on December 6, 2002 from the City of Calgary (Calgary) the Consumer Group (CG) and the Alberta Urban Municipalities Association and the City of Edmonton (AUMA). ATCO filed its reply to the submissions of interested parties on December 13, 2002.

3 POSITIONS OF THE INTERVENERS

This Section of the Decision will deal with the individual issues raised by interested parties with respect to the interim rate application.

3.1 Process Issues

3.1.1 Process and Timing of the Interim Rate Application

The Consumer Group (CG) submitted that the timing of the interim application does not allow for adequate review of the material filed in the GRA, and that ATCO is creating procedural difficulties for both customer groups and the Board. The CG expressed concern that filing of an interim rate application on November 28, 2002, only allows 20 business days before January 1, 2003, the date that ATCO seeks to implement the interim rates.

The CG considered that the onus is on the applicant to justify a request for approval of an interim rate application, and should not become a standard part of a general rate application. The CG submitted that the opportunity for reasonable examination of rate increases and the ability to file opposing evidence is a requirement of natural justice. The CG stated, since interim rate applications bypass the hearing process, the applicant should be able to demonstrate that failure to implement the interim rates will result in significant harm to the utility. The CG considered that ATCO could have filed an application along with the GRA in August 2002. The CG noted that ATCO is not claiming financial harm or an inability to continue safe utility operations without the interim rate increase, and submitted that the interim rate filing should be rejected.

3.1.2 Notice

Referring to the Public Notice of the GRA proceedings issued on September 6, 2002, the CG pointed out that the notice did not indicate that the application would deal with interim rate changes or rate changes taking effect January 1, 2003. In the CG's view, there should be a reasonable expectation that the rate changes contemplated by the Board's GRA notice will occur after determination of the Phase I revenue requirement. The CG considered that adequate public notice, including publication in major Alberta newspapers, has not been provided for this interim rate application. The CG considered that ATCO has placed the Board in a position where a notice cannot be published prior to finalizing its determination on the interim rate application.

3.2 Rate Stability

The CG disagreed with ATCO that implementation of the applied for interim rate would actually minimize rate shock, submitting that the suggested increase combined with high winter commodity prices, and high usage for low load factor customers could lead to significantly higher bills in January than in other months. In the CG's view, the current monthly gas price setting methodology makes it highly undesirable to implement rate increases in winter months.

The CG noted that the rate structures of ATCO Gas North and South are based on cost of service studies that are significantly out-of-date, and that for both North and South, there could be significant rate restructuring based on more current cost structures. The CG submitted therefore, that there could be further rate shock to specific rate classes when the Phase II proceeding is ultimately finalized.

The CG submitted that the interim rate application does not achieve the goal of prevention of rate shock, and considered that the potential for a significant reduction to the forecast 2003 revenue requirement means that the two stage approach to rate implementation of 2003 final rates will be confusing for ATCO customers.

3.3 Interim Rates for the South

The CG noted that ATCO uses, as a starting point, the estimated revenue deficiency of \$10.2 million attributed to the shortfall in existing rates for 2002 in the AGS 2001/2002 GRA.

The CG considered ATCO's position with respect to 2003 interim rates for the South as reasonable until such time as the Board has considered the merits of the 2003/2004 GRA.

The AUMA agreed with the Board's approach in Decisions E92036 and E93028, as quoted by ATCO, that all or some portion of any contentious amounts should be excluded from the amount to be collected through interim rates, that interim rate increases are generally warranted where the identified revenue deficiency is probable and material, and that it is appropriate to apply the interim rider on an across-the-board basis on customer's energy, customer and demand charges.

The AUMA noted that ATCO is requesting an interim increase of 43% of the shortfall for the South and understood that the increase of \$10.2 million represents the rate increase that ATCO expects the Board to approve in the AGS 2001/2002 GRA. The AUMA considered that the interim increase in the South generally meets the above criteria and that the interim rates for the South should be approved, as requested, on an across-the-board basis.

Calgary noted that ATCO, having made reference to Decision E92036, did nothing with the principles enunciated, including attempting to identify and quantify the effect of those areas that might be contentious.

Based on review of the GRA and the responses to information requests received to date, Calgary referred to the following areas as likely to be contentious:

- Cost of Capital (particularly return on equity);
- Advertising

- Meter and Service Replacement
- Mains Improvement
- O&M Expense
- O&M Capitalization
- Customer and Volume Forecasting
- Depreciation
- I-Tek and Singlepoint (I-Tek services) moved to a separate module

Given the number of information responses outstanding, Calgary was not able to quantify the effect of these contentious items.

Calgary stated that, in the absence of a detailed interim rate analysis, the most appropriate way to examine the current areas of contention is to look to recent history and compare the AGS 2001/2002 GRA revenue shortfall to the outcome of Board Decisions 2001-96, 2002-069 and 2002-072. Calgary provided the comparison as follows:

	(\$000,000)		
	2001	2002	TOTAL
ATCO "GRA Shortfall" (April 22, 2002 Compliance Filing)	26.176	24.006	50.182
Current Shortfall (Sept 17, 2002 Compliance Filing)	(4.116)	10.258	6.142
% of ATCO Gas South Request			12.2%

Calgary noted that these numbers do not reflect the impact of Decision 2002-097. Calgary also noted that an additional \$12 million relating to un-contracted storage capacity revenues now reflected in the Cost of Storage Rate Rider (COSRR), is not reflected in revenue requirement. Calgary pointed out that if that revenue had remained in the revenue requirement, the original 2001/2002 GRA revenue shortfall of \$50.182 million, would have converted to a surplus of about \$6 million at the conclusion of the AGS 2001/2002 GRA proceedings.

Calgary submitted that, given the failure of ATCO to specify and quantify areas of contention with respect to interim rates, the complexities imposed by the request for a combined north/south revenue requirement, and the history of the last GRA, the Board should not grant a request for an interim rate increase for the South at the present time.

Calgary expressed surprise that the AUMA would suggest that the criteria in Decisions E92036 and E93028 have been met, when the interim rate application makes no attempt to identify or quantify areas of contention. Furthermore, Calgary indicated that the \$10.2 million 2002 shortfall arising from the September 17, 2002 Compliance filing, must be considered in the context of the \$4.1 million 2001 surplus identified in that filing.

3.4 Interim Rates for the North

In setting the proposed interim rates for the North, the CG noted that ATCO has requested an increase of \$18.6 million representing 43% of the forecast 2003 revenue requirement shortfall in the North, similar to the ratio used in the South. The CG submitted that ATCO has failed to take account of the fact that rates for AGN are also in the process of a final rate determination for 2002 in the context of examination of the negotiated settlement of a 2002 re-opener to the North Core Agreement. The CG pointed out that the Board is expected to render its decision late in 2002 or early in 2003. The CG submitted that the interim rates for 2003 in the North should also

be set at the same level as that finally approved for AGN in 2002, thereby maintaining consistency with the principle that the interim 2003 rates would be based on 2002 rates that have been subjected to Board review and approval. The CG submitted that ATCO's use of 43% as a common principle is misguided, represents an "apples/oranges" comparison and should be rejected by the Board as a basis for setting the interim rate for the North.

The CG expressed concern that, in an interim rate application set in advance of a GRA or test year, the Board is dealing with an untested filing, and pointed out that, in the AGS 2001/2002 GRA, the Board expressed concern with estimates and forecasts. The CG stated that the Board has not had the benefit of filed intervenor evidence, and it is inappropriate for the Board to rely on the information filed only by ATCO, particularly if ATCO is not claiming significant financial harm in the application.

Both the CG and AUMA submitted that it is appropriate to follow the logic set out by the Public Utilities Board in Decision E92036 that any contentious items should be removed in determining the appropriateness of the level of interim rates.

The AUMA disagreed with ATCO's proposal for an increase of \$18.6 million for the North, on the basis that ATCO had provided no justification for applying the same 43% to the North forecast shortfall, as that used in the South.

3.4.1 ATCO Pipelines Placeholders

The CG noted that ATCO receives transmission delivery service from ATCO Pipelines, the cost of which is charged to distribution customers. The CG also noted that the charge for this service used in the development of the 2003/2004 GRA forecast is \$1.63/GJ for the South, based on the interim rate approved in Decision 2002-049 for ATCO Pipelines, and \$2.10/GJ for the North, based on the rate that was negotiated through the North Core Agreement and based on the 1998 Industrial/Producer revenue forecast.

The CG considered that the \$2.10 placeholder for the transmission costs in the North is much higher than the \$1.63 set for the South and is a highly contentious item. In the CG's view, the transmission rate in the North should be determined based on information on the current forecast of Industrial/Producer revenues, none of which is before the Board. The CG pointed out that a transmission rate placeholder for the North, reduced to the level of the rate in the South, would result in a revenue requirement reduction of approximately \$8 million.

3.4.2 Capital Additions

The CG stated that ATCO capital projects fall into two categories, the first of which can be described as those physical infrastructure components required to extend service to new franchise customers. The CG did not take issue with the fact that these projects must be done, but indicated that there may be issues with respect to estimated costs.

The CG pointed out that the second category of capital projects are those which can be classified as discretionary and therefore more controversial or contentious. The CG considered that many of the major capital projects identified in the GRA are in this category and will generate significant cross-examination at the oral hearing. The CGA noted that, in the North, these projects include metering improvements/relocations, Red Deer and Sherwood Park Operating Centres, infrastructure protection, work management, one bill model, and the distribution gas

information system, amounting in total to \$40.85 million in 2003. The CG pointed out that removal of the costs of these contentious projects would reduce the revenue requirement in the North by approximately \$4.0 million at the ATCO requested rate of return.

The AUMA considered that maintaining the 2002 level of capital additions would likely eliminate the majority of contentious additions, including the new Metering Improvements, for which expenditures in the North are forecast to be in the order of \$13 million in 2003. The AUMA also indicated that, on an overall basis, 2003 additions are forecast to increase by approximately \$24 million over 2002 levels, an increase that should not be reflected in interim rates without further review and testing.

3.4.3 Rate of Return

The CG noted that the GRA revenue requirement reflects an increase in the rate of return on common equity to 11% from the current rate of 9.75%, and pointed out that the increase in interest rates necessary to support such a change has not been tested. The CG referred to examples from previous Board Decisions where the Board has reduced the applied for rates of return and associated income taxes.

The CG noted that, if the rate of return and capital structure for the North were set at the level awarded to AGS in Decision 2001-96, there would be a reduction of \$4.2 million in the forecast revenue deficiency for 2003.

Noting that ATCO has forecast a rate of return on equity of 11.0% in the GRA, the AUMA submitted that interim rates in the North should not reflect an equity rate of return exceeding the 9.75% approved in Decision 2001-96 for AGS.

3.4.4 O&M Expenses

Both the CG and AUMA noted that the O&M forecasts for the North include placeholders for ATCO Singlepoint and I-Tek services, and indicated that these amounts do not appear to reflect the reductions in affiliate costs pursuant to Decision 2002-069 (the Affiliate Decision). The CG submitted that revision to these forecasts to reflect the reductions of 11.1% for ATCO I-Tek and 7.5% for ATCO Singlepoint, as approved for 2002, would result in a reduction of \$2.2 million in the 2003 O&M forecast for the North.

The AUMA maintained that O&M expenses should be maintained at a level no higher than the level in 2002 without further testing. 2003 O&M expense have been forecast by ATCO to increase by \$4.2 million in the North.

3.4.5 Depreciation

Referring to ATCO's statement, in the GRA, that a new depreciation study was conducted in 2001 on data collected up to December 31, 2000, the CG considered that any interim rate increase should be based on approved depreciation rates rather than rates that have simply been filed as part of an untested rate filing. Given the difficulties, at this time, in determining all consequences of changes in depreciation rates and methodology, the CG was unable to establish the degree to which the depreciation study may be contentious. However, the CG was particularly concerned with the combination of North and South accounts with different life characteristics and prior depreciation rates.

The AUMA stated that ATCO's depreciation calculations should exclude the \$24 million of proposed capital additions in 2003.

3.4.6 Income Tax

The AUMA stated that ATCO has reflected negative income taxes of \$3.1 million in the GRA for 2003 as a result of a \$12.8 million refund of deferred taxes, but has shown an \$18.2 million refund of Federal deferred taxes elsewhere in the GRA. The AUMA submitted that, without further examination, income taxes for the North should be reduced to negative \$8.5 million.

3.4.7 Revenues

The CG stated that the forecast of sales and transportation revenues for 2003 in the North indicates a decline from actual 2001 levels of about \$10 million. Noting that ATCO is forecasting aggressive reductions in unit consumption rates for both North and South, the CG submitted that these reductions in unit consumption rates and revenues have not been tested. The CG also pointed out that, while ATCO shows North Core re-opener revenues from ATCO Pipelines of \$10.3 million in 2001 and 2002 representing ATCO Pipelines' share of rate reductions in 2001 and 2002, this item does not appear as revenue in 2003 or 2004. The CG expressed concern that ATCO proposes to increase the ATCO Pipelines North rate to a higher level in 2003 from existing levels without any testing or evidence in support of this increase.

The AUMA stated that another area of concern in the North relates to revenues on existing rates. The AUMA noted that, in the GRA, ATCO shows a \$9.6 million reduction in forecast sales and transportation revenues for 2002 as compared to 2001. The AUMA pointed out that this decrease has not been tested and that, by comparison, ATCO shows a \$6.9 million increase in 2002 over 2001 for the South. The AUMA considered that, in the absence of further testing, forecast sales and transportation revenues at existing rates should be increased by \$9.6 million in the North.

The AUMA also noted that, in the GRA, ATCO reflects a decrease of \$11.1 million in Other Utility revenues from 2002 to 2003, indicating that this reduction relates to the North Core Reopener. The AUMA expressed concern with the lack of information provided with respect to this issue, and submitted that, absent any real justification for the loss of these revenues, Other Revenues should be increased by \$10.3 million in 2003.

3.4.8 Level of Interim Rate Increase in the North

The AUMA summarized the changes in revenue requirements and revenues resulting from the issues highlighted in the above paragraphs, as follows:

ATCO Gas North Shortfall per ATCO Gas	\$43.2 million
Reduced 2003 Capital Additions	(\$1.5)
9.75% Return on Equity	(\$4.2)
O&M at 2002 Levels	(\$4.2)
Adjust Depreciation for Capital Additions	(\$0.5)
Differences in Deferred Taxes Refund	(\$5.4)
Affiliate Transaction per 2002-069	(\$2.5)
2002 Reduction in Sales and Transportation Revenues	(\$9.6)
Loss of ATCO Pipelines Revenues in 2003	(\$10.3)
Revenue Shortfall per AUMA/Edmonton	\$5.0 million

The AUMA submitted that an interim increase of no more than \$5.0 million is warranted for the North effective January 1, 2003.

The CG submitted that, as an alternative to ATCO's proposals, all that needs to be done is to allow the finally approved 2002 rates for both North and South to continue into 2003 until final rates are approved pursuant to the Board's adjudication of the 2003/2004 GRA.

4 Views of the Applicant

4.1 Interim Rates for the South

ATCO indicated that, in the Application, the Company simply requested the Board to allow ATCO to increase its existing rates in the South on an interim refundable basis by \$10.2 million, which will in due course at the conclusion of the AGS Phase I proceeding be approved by the Board as a rate increase for AGS for 2002. As stated in the Application, final 2002 rates will be determined through the Phase II portion of the AGS proceeding. ATCO considered that the level of increase is not contentious as it merely reflects the level of increase that will be approved by the Board for 2002 rates. ATCO noted that the AUMA and the CG appeared to agree with this point.

4.2 Interim Rates for the North

ATCO noted that both the AUMA and the CG have identified approximately \$38 million of "contentious" items in their respective submissions with respect to the interim increase for the North.

Although ATCO considered its forecast fully supportable, the Company did not request an increase for the entire revenue shortfall, but took into consideration the fact that interested parties would identify contentious items that should not be included in the determination of interim rates. In ATCO's view, while it is evident that the interveners consider that there is not much that is not contentious, it is also evident that even with this aggressive view, \$5 million of the shortfall still remains.

ATCO submitted that the simple assertion that an item is contentious should not be determinative of the outcome of an interim rate application, noting that in Decision E93028, the Municipal Intervenors asserted that the Board should "exclude all or some portion of the amounts dealing with contentious areas so as to minimize the potential of over-collections through interim rates." ATCO also pointed out that the Board's findings in Decision E92036 reflected the fact that identifying an amount as contentious does not automatically imply that the full amount should be excluded in the setting of interim rates. ATCO submitted that the focus is upon avoiding over-collection from interim rates in order to reduce fluctuations in rates, and that the purpose of an interim rate application is to avoid rate shock and intergenerational inequity.

ATCO did not comment on the merits of each item identified by the AUMA and the CG as contentious. ATCO did, however, take issue with the conclusions of the intervenors with respect to revenues and deferred taxes.

4.2.1 Revenues

ATCO noted that both the AUMA and the CG referred to the decrease of almost \$10 million in forecast revenues for 2003 compared to 2002, and suggested that this amount should be removed from the forecast revenue shortfall of \$43.2 million on the basis that the reduction has not been tested. ATCO pointed out, however, that rates in the North were reduced by 11.4 cents per GJ effective January 1, 2002 as an interim reduction pending resolution of the re-opener to the North Core Agreement. ATCO indicated that applying the rate reduction of 11.4 cents to the forecast sales throughput for 2002 of 106.6 PJ, as shown on Schedule 5.1-D of the GRA, results in a decrease in revenues of approximately \$12 million. ATCO indicated that this decrease has been offset to some degree by customer growth, resulting in a net decrease of \$10 million. ATCO submitted that this amount should not be included in the list of contentious issues, as this interim rate reduction has been incorporated into the 2003 forecast of revenue on existing rates.

4.2.2 Deferred Taxes

ATCO referred to the AUMA's comments regarding the differences in the deferred taxes refund. ATCO pointed out that the difference between the amount of the deferred income taxes of \$12.8 million and the \$18.2 million refund to customers is the effect of income tax on the refund. ATCO submitted that the \$5.4 million adjustment suggested by the AUMA related to this item should be removed from the list of contentious items.

4.3 ATCO Conclusion on Interim Rates for the North

ATCO pointed out that, eliminating the revenue decrease of almost \$10 million and deferred tax difference from the list of contentious items, results in an interim increase amount close to that recommended by the Company.

ATCO submitted that the balance between what the Company is requesting in the GRA and the amount proposed for recovery under interim rates is reasonable. ATCO did not consider it appropriate to look at the common equity averaging for the period of 1998-2001, as suggested by the CG, given the 14% decrease in rates that occurred January 1, 2001.

Contrary to the concerns of the CG, ATCO considered that proper notice had been given to all parties that expressed interest in the 2003/2004 GRA. ATCO pointed out that notice of the GRA application was published and all parties expressing an interest in this proceeding were provided with a copy of the interim rate application and afforded an opportunity to comment.

5 Views of the Board

The Board notes the concern of the CG that filing of the Application on November 27, 2002 for approval of an interim rate effective January 1, 2003, created difficulties for customer groups and the Board. The Board agrees that an earlier filing should have been made if possible, and had the Application been made earlier it would have allowed for more extensive review of contentious items, particularly in the context of the information exchange process in the GRA. However, while the time constraints, combined with a busy regulatory agenda, presented significant challenges for the Board and customer groups in examining the Application, the Board is satisfied that the ability of customer groups to bring forward issues of concern, or the ability of the Board to evaluate the Application, was not compromised.

The Board notes ATCO's submission that an interim increase in rates would be in the best interests of customers, on the basis that the increase would minimize potential rate shock for customers and maintain intergenerational equity. On the other hand, the Board also notes the concern of the CG that application of an interim rate increase, combined with changes in GRR methodology and high winter gas prices will potentially increase, rather than minimize, the rate shock to customers. In the present circumstances, the Board considers that interim rate increases are generally warranted given that the forecast 2003 revenue deficiency is material. An interim rate increase aimed at recovering a portion of any shortfall that is ultimately demonstrated and approved provides for a leveling out of the impact of any final rate increase, thereby promoting rate stability and easing any rate shock to customers at a later date. The Board also considers it appropriate that customers' rates for a given period reflect the costs associated with that period in order to maintain intergenerational equity. While acknowledging the submission of the CG that ATCO has not claimed financial harm or an inability to continue safe utility operations without an interim rate increase, the Board considers it appropriate, given the magnitude of the forecast 2003 revenue deficiencies for AGS and AGN, that some degree of interim rate increase is warranted.

5.1 Interim Rates for the South

The Board does not accept Calgary's submission that revenue relating to the un-contracted storage capacity at Carbon should be factored into the determination of the shortfall for 2002. The Board considers that the impact of this revenue on the shortfall for AGS has been adequately addressed in previous Decisions issued with respect to the AGS 2001/2002 GRA and revisions to the GRR methodology.

The Board also disagrees with Calgary's proposal for netting the 2001 AGS surplus of \$4.1 million against the shortfall for 2002, on the basis that the 2001 surplus has already been returned to customers as part of an interim rate rider applied by AGS to customer rates pursuant to Decision 2002-050, and will have no effect on a going forward basis.

The Board considers that there is merit in ATCO's proposal to base the interim rates in the South on a 2002 shortfall that has been subject to examination in the Phase I portion of the 2001/2002 AGS GRA. The Board notes that the AUMA and the CG both accepted the principles applied by ATCO as a reasonable basis to set interim rates for the South, and did not object to ATCO's proposal to increase existing rates on an interim basis by the amount of the 2002 shortfall of \$10.2 million. Accordingly, the Board accepts ATCO's proposal to base the level of increase on the 2002 shortfall for AGS, but will "round" the interim increase to a level of \$10 million, recognizing that the 2001/2002 GRA process for AGS has yet to be finalized.

In its determination of interim rates for AGS, the Board is not making any finding or determination with respect to any of the matters to be considered in the upcoming GRA. While considering the request for interim rates to be reasonable, the Board recognizes that the evidence before it is primarily untested and that a number of areas of concern identified by the interveners could result in an adjustment to the Company's forecast 2003 revenue shortfall.

The Board accepts ATCO's proposal that the interim increase be applied to all customer rates across-the-board, on the basis that this method has minimal impact on the existing approved rate

structure. Appendix A of this Decision sets out the calculation of the interim rates for the South, as approved in this Decision, for each of the affected rate classes.

5.2 Interim Rates for the North

The Board notes that both the AUMA and CG (the Interveners) disagreed with ATCO's proposal for an increase of \$18.6 million for the North, on the basis that ATCO had provided no justification for applying the same 43% to the North forecast shortfall, as was used in the South. The Board also acknowledges the AUMA's reference to the Board's approach in Decisions E92036 and E93028, as quoted by ATCO, that all or some portion of any contentious amounts should be excluded from the amount to be collected through interim rates.

The Board notes that the Interveners made submissions with respect to certain specific amounts included in the 2003 GRA revenue requirement forecast which they considered contentious, and which they submitted should be excluded in the determination of an interim rate increase in the North. The Board notes that the AUMA calculated \$38 million to be the total amount of the contentious issues. The AUMA therefore contended that this total should be deducted from the 43.2 million 2003 forecasted shortfall in the North, leaving an amount of approximately \$5 million eligible for collection by way of interim rates.

The Board also acknowledges ATCO's submissions in response to Intervener concerns with respect to the reduction of \$9.6 million in Sales and Transportation revenues in 2003, and the deferred tax differential of \$5.4 million, and considers that there is merit in ATCO's rationale supporting exclusion of these amounts from the list of contentious items. The Board notes that exclusion of these amounts would result in an amount that is eligible for collection by way of interim rates of approximately \$15 million.

While acknowledging the caution expressed by the Interveners regarding implementation of interim rates without the benefit of full examination of contentious items, the Board considers it appropriate that, given the magnitude of the forecast revenue deficiency for the test years, some degree of interim rate adjustment is warranted in this case. Accordingly, after reviewing the issues arising with respect to the Application, and recognizing the significant difference in the value attributed to contentious items by the Interveners and ATCO, the Board considers it reasonable to allow ATCO to collect an amount of \$15 million through interim refundable rates in the North. This represents approximately 34.7% of the 2003 forecast revenue shortfall in the North, compared to the 43% requested by ATCO. The Board notes that both these percentages are in line with those awarded by the Board in previous interim rate Decisions

In its determination of interim rates for AGN, the Board is not making any finding or determination with respect to any of the matters to be considered in the upcoming GRA. While considering the request for interim rates to be reasonable, the Board recognizes that the evidence before it is primarily untested and that a number of areas of concern identified by the interveners could result in an adjustment to the Company's forecast 2003 revenue shortfall.

The Board accepts ATCO's proposal that the interim increase be applied to all customer rates across-the-board, on the basis that this method has minimal impact on the existing approved rate structure. Appendix B of this Decision sets out the calculation of the interim rates for the North, as approved in this Decision, for each of the affected rate classes.

6 ORDER

THEREFORE IT IS ORDERED THAT:

- (1) The rates, tolls and charges set out in Appendix A and Appendix B of this Decision are hereby fixed and approved on an interim refundable basis effective on consumption on and after January 1, 2003.

Dated in Calgary, Alberta on December 24, 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)

John Nichol
Member

APPENDIX A – ATCO GAS INTERIM RATES (SOUTH)

**ATCO GAS SOUTH
2003 GRA BILLING DETERMINANTS AND EXISTING AND PROPOSED INTERIM RATES**

RATE	DESCRIPTION	EXISTING RATES RATES EFFECTIVE APRIL 1, 2002			PROPOSED RATES RATES EFFECTIVE JANUARY 1, 2003			FIXED	MARGIN (000'S) DEMAND	ENERGY	TOTAL	ROUNDING	REVENUE AT EXISTING RATES
		FIXED	ENERGY	DEMAND	FIXED	ENERGY	DEMAND						
		\$/mo	\$/GJ	\$/GJ/mo	\$/mo	\$/GJ	\$/GJ/mo						
1	GENERAL	13.00	1.012		13.79	1.074	0.00						
3	LARGE USE	250.00	0.268	3.25	265.25	0.284	3.45						
5	IRRIGATION	20.00	0.844		21.22	0.895	0.00						
13	DISTRIBUTION	275.00	0.147	5.30	291.78	0.156	5.62						
			ANNUAL SALES TJ'S	ANNUAL DEMAND TJ'S									
RATE	DESCRIPTION	AVERAGE CUSTOMERS			FIXED	DEMAND	ENERGY	TOTAL	ROUNDING				
1	GENERAL	429,614	78,627	0	67,020	0	79,571	146,591	1			146,592	
3	LARGE USE	760	14,021	1,327	2,280	4,313	3,758	10,350	(4)			10,346	
5	IRRIGATION	693	787	0	166	0	664	830	2			832	
13	DISTRIBUTION TRANS	203	13,042	708	670	3,752	1,917	6,340	3			6,343	
	SUB-TOTAL MARGIN	431,270	106,477	2,035	70,136	8,065	85,910	164,111	2			164,113	
	STORAGE RIDER - NET											(2,882)	
	REFUND OF DEFERRED INCOME TAX											(2,211)	
	MISCELLANEOUS REVENUE											16,727	
	TOTAL REVENUE ON EXISTING RATES											<u>175,747</u>	
			ANNUAL SALES TJ'S	ANNUAL DEMAND TJ'S									
RATE	DESCRIPTION	AVERAGE CUSTOMERS			FIXED	DEMAND	ENERGY	TOTAL	ROUNDING			REVENUE AT PROPOSED RATES	
1	GENERAL	429,614	78,627	0	71,093	0	84,445	155,538				155,538	
3	LARGE USE	760	14,021	1,327	2,419	4,578	3,982	10,979				10,979	
5	IRRIGATION	693	787	0	176	0	704	880				880	
13	DISTRIBUTION TRANS	203	13,042	708	711	3,979	2,035	6,725				6,725	
	SUB-TOTAL MARGIN	431,270	106,477	2,035	74,399	8,557	91,166	174,122	0			174,122	
	STORAGE RIDER - NET											(2,882)	
	REFUND OF DEFERRED INCOME TAX											(2,211)	
	MISCELLANEOUS REVENUE											16,727	
	TOTAL REVENUE ON EXISTING RATES											<u>185,756</u>	
	INCREASE											<u>10,009</u>	

APPENDIX B – ATCO GAS INTERIM RATES (NORTH)

**ATCO GAS NORTH
2003 GRA BILLING DETERMINANTS AND EXISTING AND PROPOSED INTERIM RATES**

RATE	DESCRIPTION	EXISTING RATES RATES EFFECTIVE APRIL 1, 2002			PROPOSED INTERIM RATES RATES EFFECTIVE JANUARY 1, 2002		
		FIXED \$/mo	ENERGY \$/GJ	DEMAND \$/GJ/mo	FIXED \$/mo	ENERGY \$/GJ	DEMAND \$/GJ/mo
1	GENERAL	11.87	0.920		12.99	1.006	0.00
3	LARGE USE	236.50	0.244	3.47	258.73	0.267	3.80
13	DISTRIBUTION	275.20	0.049	5.33	301.07	0.054	5.83

RATE	DESCRIPTION	AVERAGE CUSTOMERS	ANNUAL SALES TJ'S	ANNUAL DEMAND TJ'S	MARGIN (000'S)				ROUNDING	REVENUE AT EXISTING RATES
					FIXED	DEMAND	ENERGY	TOTAL		
1	GENERAL	433,344	89,527	0	61,726	0	82,365	144,091	7	144,098
3	LARGE USE	893	17,483	1,575	2,534	5,465	4,266	12,265	8	12,273
13	DISTRIBUTION TRANS	225	6,864	412	743	2,196	336	3,275	(0)	3,275
	SUB-TOTAL MARGIN	434,462	113,874	1,987	65,003	7,661	86,967	159,631	15	159,646
	REFUND OF DEFERRED INCOME TAX									(20,396)
	MISCELLANEOUS REVENUE									11,921
	TOTAL REVENUE ON EXISTING RATES									<u>151,171</u>

RATE	DESCRIPTION	AVERAGE CUSTOMERS	ANNUAL SALES TJ'S	ANNUAL DEMAND TJ'S	MARGIN (000'S)				ROUNDING	REVENUE AT PROPOSED RATES
					FIXED	DEMAND	ENERGY	TOTAL		
1	GENERAL	433,344	89,527	0	67,550	0	90,064	157,614		157,614
3	LARGE USE	893	17,483	1,575	2,773	5,985	4,668	13,426		13,426
13	DISTRIBUTION TRANS	225	6,864	412	813	2,402	371	3,586		3,586
	SUB-TOTAL MARGIN	434,462	113,874	1,987	71,136	8,387	95,103	174,626	0	174,626
	REFUND OF DEFERRED INCOME TAX									(20,396)
	MISCELLANEOUS REVENUE									11,921
	TOTAL REVENUE ON EXISTING RATES									<u>166,151</u>
	INCREASE									14,980

