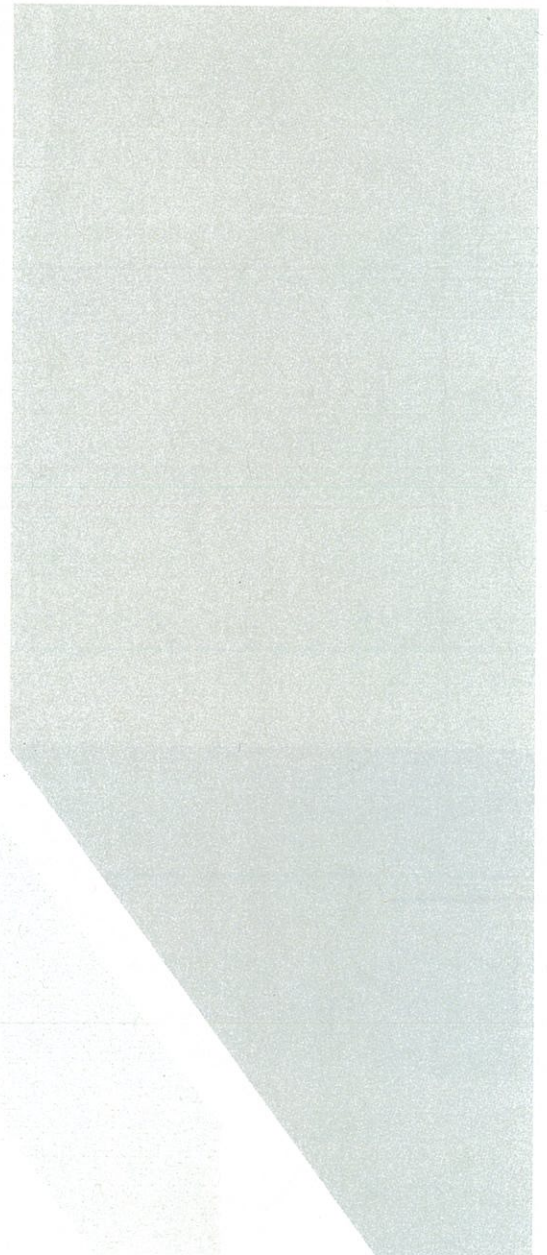




ATCO GAS

**2008-2009 General Rate Application
Phase I**

November 13, 2008



approach that would be used in the upcoming GRA. In this way, proposed changes that might be brought forward in that proceeding will have the opportunity of being fully understood and examined. The Commission also directs that the information shared and discussed at this technical meeting shall be included in its entirety in the application for the upcoming GRA.

The Commission acknowledges that no party has objected to AGs used of a 10-year temperature methodology instead of the previously used 20-year average. The Commission finds that the 10-year average will provide greater relative symmetry and accuracy in forecasting of temperatures for normalization purposes. Given the improved accuracy that will result, the Commission approves AG's use of the 10-year average temperature forecasting methodology.

13.2 Weather Deferral Account

AG requested a weather deferral account to offset revenue risk of temperatures being different than those forecast, to allow for recovery of its costs, and to earn the return approved in rate design. AG indicated that while almost 100% of its costs were of a fixed nature, approximately 44% of its revenue was recovered through a variable charge. AG stated that temperature forecasting for a future year could not be reasonably forecast with accuracy, and that the deviation in weather had a significant impact on return.¹⁷⁹

AG proposed to commence use of a deferral account, effective January 1, 2008, in each of the North and the South rate zones to account for the impact on delivery revenue differences between the actual degree days and the forecast (normal) degree days used in the determination of the approved revenue forecast. The normal temperatures that would be used for the deferral account would be those used to develop the approved revenue forecast for that year. AG proposed that a 12-month rider would be required when either the North or the South weather deferral revenue accounts exceeded \$7 million dollars at April 30th of each year, which would represent about a +/- 10% variation in the normalized weather forecast.

If the Commission approves the weather deferral account mechanism, AG would file a mock rider application to demonstrate the proposed process for the determination of any future riders related to the deferral account.

13.2.1 Impact on Business Risk

The UCA and Calgary stated that implementing the Weather Deferral Account would impact AG's risk. Since the issues of business risk and capital structure are being dealt with in a separate proceeding, Calgary recommended that AG's Weather Deferral Account proposal should not be addressed at this time. CG stated that weather risk should be carried by AG shareholders instead of customers as AG could diversify this risk away.

AG stated that while matters that related to the capital structure and utility risk would be determined in a future proceeding, there was no reason to deny the use of a Weather Deferral Account in order to study its impact on AG's utility risk, because there was no risk impact. AG stated that the future proceeding would not be able to determine the appropriateness of the requested deferral account.

¹⁷⁹ Application, Section 7.0 – Utility Revenue, pages 45–49

Commission Findings

The Commission notes that the proposed weather deferral account addresses factors with significant impacts which are beyond the control of AG and therefore not within the ability of the utility to accurately forecast. As such, the proposed weather deferral account meets the criteria previously established by the EUB for the creation of deferral accounts.¹⁸⁰

The Commission finds AG's request for the proposed weather deferral account is reasonable given the that the current rate structure does not match the way that AGs costs are incurred, where almost 100% of AG's costs are of a fixed nature but approximately 44% of its revenue is recovered through a variable charge.

The Commission notes that the UCA, Calgary and the CG each suggested that AG's business risk would be impacted if a weather deferral account was approved. The Commission also notes that the 2009 Generic Cost of Capital proceeding (EPS Proceeding ID 85) is currently underway and will deal with the impacts of the different factors on each utilities return and capital structure. The Commission had determined in Decision 2008-051 that the 2009 Generic Cost of Capital proceeding would deal with AG's proposed increase to its 2008 equity ratio as part of a module to the generic proceeding.¹⁸¹ For this reason, any potential impact of a weather deferral account on AG's business risk for 2008 and 2009 will be addressed as part of the 2009 Generic Cost of Capital proceeding.

For the above reasons, the Commission approves the weather deferral account proposed by AG, with an implementation date of January 1, 2008.

13.2.2 Impact on Rate Stability

Calgary commented that the weather deferral account proposed in the Application would not fully decouple consumption from the revenue of a utility, and that although decoupling was not a new concept, it could be considered as part of a Phase II proceeding.

The CG expressed concerns that recovery of the weather deferral account balance, when it exceeded \$7 million, over a 12-month period could cause rate stability concerns. Noting the possibility of changes to rate design, the CG stated that a higher recovery of costs through fixed charges may be unacceptable to some customer groups. As such, AG's proposed weather deferral account should be rejected.

AG submitted that significant changes to its rate structure would be required to manage the effects of temperature if a weather normalization mechanism were not used. These changes could result in greater impacts on customers than an occasional weather deferral account rider.

AG suggested that the use of a deferral account could ensure there was equality in the number of degree days that were above or below the forecast over time, which would result in fair and symmetrical treatment for customers and the utility. AG confirmed that its proposed weather deferral account would not fully decouple consumption from revenue.

¹⁸⁰ Decision 2003-100, pages 115-116

¹⁸¹ Decision 2008-051 – Generic Cost of Capital – Preliminary Questions Proceeding (Application 1561663 Proceeding ID. 15) (Released: June 18, 2008)