

Loyola G. Keough
Counsel for ATCO Electric Ltd.
Direct Line: 403.298.3429
e-mail: keoughl@bennettjones.ca
Our File No.: 8794-1867

June 17, 2005

Alberta Energy and Utilities Board
5th Floor, 640-5th Avenue SW
Calgary AB T2P 3G4

Attention: Mr. Chris Burt
Application Officer

Dear Sir:

Re: ATCO Electric Ltd. 2005 Rider Application
Application No. 1400712 (the "Application")

Further to the Board's process schedule dated May 25, 2005, ATCO Electric Ltd. ("ATCO Electric") herein provides its Reply Submissions relating to the above-noted Application.

a. Audit Provisions

In Decision 2003-044, the Board directed ATCO Electric to complete an independent audit of the 2002 RRO Deferral Accounts and the 2003 Energy Deferral Account (at page 36):

The Board agrees with CCA's and the REAs/AAMDC's request that both the 2002 RRO Deferral Accounts and the 2003 RRO Energy Deferral Account should be subject to a final independent audit to confirm that the 2002 and 2003 RRO deferral account balances and associated riders are correct, that the revenues collected were in accordance with the Board Order, accurately accounted for and reconciled at the end of the Rider term ...

ATCO Electric maintains that the directed audit should provide the assurance sought by customers that its reporting of results are accurate, that it has sufficient controls and balances in place to ensure the integrity of the data and reported results, and that the calculations and methodologies employed by it are as purported and tested in each of the RRO applications. In ATCO Electric's view, an audit of 2002 Deferral Accounts will provide the above assurances with respect to fixed price products and non-energy deferral accounts. As well, an audit of the 2003 Energy Deferral Account will provide the above assurance on the Pool Price Flow-through method. Additionally, for the years 2002 through 2004 inclusive, the RRO information was presented in each respective RRO application and tested before the Board.

ATCO Electric submitted that the audit requirement suggested by FIRM, although a means of further assurance of the results, would result in an unwarranted level of duplication of process and associated costs. Since the ordered audits for 2002 and 2003 provide a sample of the two types of RRO products offered (fixed price and Pool Price Flow-through products), further cost incursion is unjustified, as the effort would be largely redundant. On this basis, ATCO Electric submits that the audits in addition to those directed in Decision 2003-044 are not required.

b. 2001 RROT Audit

FIRM has requested that an audit of 2001 RROT Deferral Accounts be performed. However, ATCO Electric notes that, with the exception of working capital and carrying costs, the Board on a final basis has determined all matters with respect to the 2001 RROT. This conclusion was confirmed in Decision 2003-037 wherein the Board stated (at page 7):

As discussed in the following sections, this Decision confirms, with the exception of the working capital deferral account, that the balances that AE calculated for each of the 2001 deferral accounts is correct.

In addition, ATCO Electric notes that in Decision 2003-037 the Board provided the following approvals (at page 12):

[a] Therefore, the Board approves AE's Final 2001 Energy Account balance of a \$11,754,000 refund due to customer classes as set out in Table 2 of this Decision.

[b] Therefore, the Board approves AE final 2001 total Exit/Entry Fees collected of \$3,667,000 to be credited against the 2001 energy deferral account increasing the refund to each customer class as set out in Table 2 of this Decision.

Based on the finality of the 2001 RROT, ATCO Electric questions the utility of an audit of the 2001 RROT Deferral Accounts. In ATCO Electric's view, the request for an audit of 2001 RROT Deferral Accounts would duplicate regulatory procedure with associated internal and external costs. On this basis, ATCO Electric opposes FIRM's proposal to the Board to direct that an audit for the 2001 RROT deferral account be performed.

c. Audit of Over Recovery of Charges at Retail Transfer

ATCO Electric has described the process that it undertook to verify the amounts. The cost of an audit is not warranted. ATCO Electric also notes that it files audited financial statements annually with the Board. The audits speak to the integrity of the reported results and to the controls in place. The request for additional audits, outside the testing of a new procedure or process, duplicates that attest function on ATCO Electric's financial statements as well as the testing intervenors provide in the regulatory application process. In ATCO Electric's view, duplicate costs should be avoided.

d. Clarification on 2003 RRO Energy Deferral Account

FIRM has noted that the balance in the 2003 Energy Deferral Account of the interim amount approved in Decision 2003-044 was \$16.6 million whereas the final amount submitted in the application is \$18.048 million. In FIRM-ATCO-5(c), ATCO Electric responded that the difference between the interim and final amount of the 2003 Energy Deferral Account resulted from the difference between the initial and final settlement. In any event, however, ATCO Electric submits that this issue will be addressed to FIRM's full satisfaction when the audit of the 2003 RRO Energy Deferral Account is completed as directed in Decision 2003-044.

e. Post-Final Adjustment or RAM Charges

ATCO Electric is disappointed at FIRM's position that ATCO Electric should not be reimbursed for RAM charges, based solely on the reason that the Board disallowed similar charges for EESAI in Decision 2005-004. The FIRM's only rationale for this position is its evidence in regard to EESAI's application. ATCO Electric submits that this evidence is irrelevant to the ATCO Electric's RRO negotiated settlement and energy price flow-through arrangements for 2003 and 2004. ATCO Electric's situation is much different than that of EESAI and this should be clear to the FIRM.

In Decision 2001-086, with respect to the 2002 RRO energy procurement agreement, the Board stated at page 17 that:

Accordingly the Board approves the 2002 agreement and 2002 Framework attached as Attachment 1 to this Decision.

Further, at page 20 of Decision 2001-086, the Board reiterated the various comments with respect to costs and risks:

- i. [1] The Consultation Parties, on behalf of their respective RROT customers, agree that neither ATCO Electric or CU Inc. will bear any of the risks relating to this Agreement, including the 2002 Framework and the Credit Policy, or any actions by ATCO Electric or CU Inc. hereunder, except to the extent that such risks arise due to the occurrence of an event described in clause 14(a)(i) through (iv), below.
- ii. [2] ATCO Electric shall be entitled to recover from the RROT customers all reasonable costs, charges, expenses, payments and liabilities incurred by ATCO Electric and CU Inc. in preparing, negotiating, executing and implementing the provisions of this Agreement, including the 2002 Framework, including without limitation, those described in paragraphs (i) through (vii) below, except to the extent that such costs, charges, expenses, payments and liabilities have been incurred by ATCO Electric or CU Inc. due to the occurrence of an event described in clause 14(a)(i) through (iv) below:
- iii. all costs contemplated in Section 6 of the 2002 Framework;

- iv. the amount of any payments by ATCO Electric to counterparties pursuant to Risk Management Contracts involving the physical purchase of electric energy and all costs, charges and expenses incurred in connection therewith;
- v. the amount of any payments by ATCO Electric (net of the amount of any payments by counterparties to ATCO Electric) pursuant to Risk Management Contracts involving a financial hedge of electric energy and all costs, charges and expenses incurred in connection therewith;
- vi. the amount of any payment by ATCO Electric in regard to the purchase of spot market electric energy from the Power Pool (net of the amount of any payments received by ATCO Electric in regard to the sale of electric energy to the Power Pool) and all costs, charges and expenses incurred in connection therewith;
- vii. all costs, charges and expenses of ATCO Electric relating to defaults by counterparties in connection with or under the Risk Management Contracts (including, without limitation, the windup or termination of a Risk Management Contract with a counterparty who has failed to comply with the Credit Policy attached to the 2002 Framework) and the exercise of any other rights and remedies of ATCO Electric under the Risk Management Contracts;
- viii. all costs, charges and expenses of ATCO Electric associated with the failure by the Power Pool to declare an hourly Power Pool price; and
- ix. all costs, charges and expenses incurred by CU Inc. in connection with any guarantee or other security required from CU Inc. to implement the 2002 Framework.

Based on the above, it is abundantly clear that the Board approved a flow-through of all energy related costs for the 2002 AE RROT. This arrangement is fundamentally different from the Price setting mechanism negotiated by EESAI for its RRO. First, ATCO Electric had different energy procurement arrangements than EESAI or EEC. Second, EESAI and EEC had a form of risk premium included in their RRO applications, whereas ATCO Electric did not. Third, the argument submitted by FIRM refers to fixed price (hedged) products and negotiated settlement agreements, which did not expressly allow the incremental changes due to post-final adjustments or RAM charges. None of these conditions apply to ATCO Electric. Therefore, ATCO Electric maintains that PFAM or RAM adjustments are a prudent part of the RRO and their costs should be included in the Energy Deferral Accounts accordingly.

f. Working Capital

In response to FIRM-ATCORROT-6(a,b), ATCO Electric provided the methodology of how working capital and carrying costs associated with the 2001 Deferral Balances was calculated up to December 31, 2002. In the response, ATCO further stated that working capital costs up to the end of December 31, 2001 were \$839,790 versus the Board approved amount of \$360,000, resulting in a difference of \$479,790. In addition, as a result of the timing of payments and receipts related to

June 17, 2005

Page Five

2001 transactions and the assumed timing of deferral balance settlement from July 2002 to December 2002, ATCO Electric noted that carrying costs of \$390,379 would be owed to customers from the period January 1, 2002 to December 31, 2002.

Subsequent to ATCO Electric's response to FIRM-ATCORROT-6(a,b), the Board in Decision 2003-037 directed ATCO Electric to amend the 2001 working capital and carrying cost calculation provided in FIRM-ATCORROT-6(a,b) to include the impact of Government rebates. As outlined in Appendix F of the 2005 Rider G Application, ATCO Electric complied with this Board direction. Specifically, the impact of Government rebates from the period January 1, 2001 to December 31, 2001 was included in Appendix F.1 and Appendix F.3. The impact of government rebates in the period of January 1, 2002 to December 31, 2002, along with the impacts of 2001 transactions in 2002 and timing of rider payments was included in Appendix F.2 Lines 1-29.

The below table provides a reconciliation of ATCO Electric's original response to FIRM-ATCORROT-6(a,b) to the amounts reported in Appendix F.1-F.3 of the 2005 Rider Application.

	FIRM- ATCORROT-6 a,b	Impact of Rebates	2005 Rider Appl. Appendix F
Working Capital Expense (Jan 2001 – Dec 2001)	\$839,790	(\$394,544)	\$445,246
Amount allowed by the Board	<u>\$360,000</u>	-	<u>\$360,000</u>
2001 Working capital deferral as at December 31, 2001	\$479,790	(\$394,544)	\$85,246
Carrying costs on 2001 Deferral Balances in 2002	<u>(\$390,379)</u>	<u>(\$73,621)</u>	<u>(\$464,000)</u>
Net working capital deferral and 2002 Carrying costs	<u>\$89,411</u>	<u>(\$468,165)</u>	<u>(\$378,754)</u>

As demonstrated by the above table, it is clear that ATCO Electric has complied with the Board direction, which was to include the impact of Government rebates in the calculation of the 2001 working capital deferral and 2002 carrying costs associated with 2001 deferral balances. The impact of the inclusion of Government rebates in 2001 was a decrease in the amount owing from customers of \$394,544 and the impact on the 2002 carrying cost was an increase in the amount owing to customers by \$73,621.

g. Trading Charges

In Decision 2002-106, the Board stated (at page 37):

June 17, 2005

Page Six

The Board also approves AE's application to incorporate Pool trading charges into the 2003 energy rate, given AE's move to the flow-through pricing method and the consideration that trading charges are an energy related cost.

ATCO Electric would like to clarify that trading charges are a part of the Pool Price Flow-through rate used in the billing of customers. However, trading charges for the 2003 RRO Energy Deferral Account (and similarly for the 2004 RRT Energy Deferral Account) have not been included in this Rider Q application. This position was stated in response to Firm-ATCO-5(a).

For 2003 and 2004, Pool trading charges were \$217,000 and \$105,000, respectively. ATCO Electric can advise that it will apply to dispense with any balances in the trading charges deferral account (for 2003 and 2004) when it applies to dispense with the non-energy deferral accounts for those years.

h. Additional Comments

For the record, on page 3 of the FIRM argument, FIRM misquotes the response to FIRM-ATCO-5(b). The correct response is as follows: "Final settlement results do include amounts related to post-final adjustment and RAM charges".

Should you have any questions regarding the above please do not hesitate to contact the undersigned.

Yours truly,

BENNETT JONES LLP

Loyola G. Keough
Counsel for ATCO Electric Ltd.

cc: Interested Parties