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Our File No.: 8794-1841

February 16, 2006

Alberta Energy and Utilities Board
640 - 5 Ave S.W.
Calgary, AB
T2P 3G4

Att: Mr. Robert Litt
Application Officer

Dear Mr. Litt:

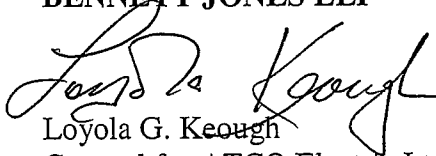
**Re: ATCO Electric Ltd.
2003-2004 Regulated Rate Option Tariff Non-Energy Rate Application
Application No. 1282255**

Further to the Board's letter of January 19, 2006, please find attached the Reply Argument of ATCO Electric Ltd.

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

Yours truly,

BENNETT JONES LLP


Loyola G. Keough
Counsel for ATCO Electric Ltd.

Encls.

**ALBERTA ENERGY AND UTILITIES BOARD
ATCO ELECTRIC LTD.
2003-2004 REGULATED RATE OPTION TARIFF
APPLICATION NO. 1282255
REPLY ARGUMENT OF ATCO ELECTRIC LTD.**

A. INTRODUCTION

ATCO Electric Ltd. ("ATCO Electric") received an Argument filed on behalf of the FIRM Group of Customers (the "FIRM") on February 2, 2006 in accordance with the Board's schedule. Unfortunately, these proceedings provide yet another illustration of what appears to be a developing practice of the FIRM. The "argument" submitted by the FIRM contains new "evidence" that has no supporting basis and, in fact, contradicts the only evidence on the record. ATCO Electric assumes the Board fully understands that its Decision must be grounded in the properly reviewed and tested evidence before it and that it will ignore the unsubstantiated evidentiary assertions made by the FIRM.

ATCO Electric is required to provide greater detail than is generally necessary for reply argument in order to address certain of the submissions made by the FIRM. In this regard, a failure to comment on any specific issue should not be construed as agreement with the FIRM. To the contrary, unless otherwise specifically indicated, the positions advanced by ATCO Electric in its Application and Argument remains as stated.

The FIRM also seeks to ignore that ATCO Electric is seeking to recover the "actual" costs it has incurred regarding the performance of the RROT function. Absent evidence of imprudence, which simply does not exist, ATCO Electric has a legislative right to recover its incurred costs and expenses. There is no basis to deprive ATCO Electric of such recovery in the circumstances of this Application.

Before addressing the specific issues identified by the FIRM, ATCO Electric will provide certain general comments on issues raised by the FIRM.

In its Argument (p. 1) the FIRM makes reference to non-energy deferral accounts. For clarification, there was no deferral account solely for bad debts. Rather, a deferral account was established for net bad debts (i.e. bad debts – penalty revenue).

ATCO Electric is also concerned that the FIRM is not presenting an accurate or complete picture of ATCO Electric's Non-Energy Revenue Requirement (see p. 5 – Table). The forecast values shown for 2001 are not the forecast values filed with the original application. The information shown is an updated forecast completed in September 2001 to support the 2002 non-energy cost application. In Decision 2000-88 (with the exception of the then requested management fee), the Board approved a revenue requirement that was similar to what was applied for. The Board and parties must also remember that the 2001 forecast was completed without any RROT experience, and the 2002 forecast was completed with less than a year of RROT experience. It is submitted that a comparison of actual results is the more accurate test of just and prudent costs for the 2003 and 2004 values. The Table, as presented by FIRM, implies a high level of cost disallowance which was not the case.

The FIRM claims that in Decision 2002-85, the Board denied ATCO Electric's request to expand the deferral account treatment because ATCO Electric did not provide sufficient evidence to convince the Board to deviate from the deferral account methodology set out in Decision 2000-88. The reasons the Board did not approve this request are clearly outlined in Decision 2002-85 (p. 14). The Board concluded by stating:

“Accordingly, the Board directs ATCO Electric to continue to use the 2001 deferral account treatment approved by the Board in Decision 2001-51, updating the forecast revenue requirement components to reflect the 2002 levels approved in the other sections of this Decision.”

True-ups have occurred for both the 2001 and 2002 RRO Non-Energy deferral accounts. This involved submitting applications for approval of the deferral amounts, testing of the subject applications (by Intervenors and the Board) and ultimately

approval from the Board to collect/refund the deferral account balances. Hence, the Board has accepted ATCO Electric's findings in these matters in subsequent Rider applications.

B. REVENUE REQUIREMENT MATTERS

Below ATCO Electric will comment on a number of the specific issues raised by the FIRM.

1. Customer Care and Billing Costs

In its Argument (p. 1), the FIRM is mixing approved forecast tariffs for 2001 and 2002 with 2003 and 2004 actual values. The FIRM has also not included the effect of deferral accounts in its comparison. ATCO Electric maintains that a comparison of actual values is the appropriate test. ATCO Electric acknowledges that, based on BR-ATCO-02 Schedule 1, customer accounting costs have increased in 2003 over 2002 and 2001 values. ATCO Electric reiterated its argument that the bulk of the increase related to credit and collections. As indicated, this related to the volume of financial service agent hours and an increase in the average unit rate. The costs were incurred to provide the services required to perform the RROT function. These reasonable costs should be recoverable by ATCO Electric.

The FIRM also comments on the allocation of costs between the RROT function and the DTA. In Decision 2002-085 the Board did not deny the costs ATCO Electric forecast it would incur. Rather, the Board acknowledged the allocation issue would be litigated in the RRO proceeding and any change flowed through to the DTA (Decision 2002-085, p. 28).

The increase in customer care costs included in the 2002 RROT Non-Energy Cost application that was not approved by the Board for inclusion in the RROT was indeed flowed through to the Distribution Tariff ratepayers, as contemplated.

Two other important findings from Decision 2002-085 are relevant to the FIRM's comments. First, Customer Care costs were not denied. They were merely shifted to the Distribution Tariff. The Board did not deny the existence of higher than forecast 2001 non-energy RROT costs. In fact, it acknowledged that such cost were acceptable. Secondly, the Board recognized that there were transitional issues related to the RROT that would become more defined as experience with the new industry structure grew and all customers and participants became more educated (Decision 2002-085, p. 28).

In its Argument (p. 3) the FIRM discusses the removal of \$620,000 from the 2002 Non-Energy Cost application for printing and mailing customer bills. These costs have been identified and have been included in the 2003 and 2004 non-energy costs. These costs are also identified in the ITBS cost and volume in Schedule 6.3 of the October 31, 2005 Revised Amended Application. These are also restated in the following information responses:

BR-ATCO-01(c) – Schedule 1
BR-ATCO-08(a) – Schedule 1
BR-ATCO-13(a) – Schedule 1

ATCO Electric submits that it has appropriately recorded and reflected these costs. The FIRM appears to acknowledge it is unsure of how these costs have been handled (see p. 3-4: "If the costs ... were included ..."). As demonstrated by the above, the proper RRO costs have been included in the ITBS volumes (Schedule 6.3), and have been included in the RRO revenue requirements for 2003 and 2004 (Schedules 6.1 and 6.2). There is simply no issue regarding the appropriate treatment of these costs.

In its Argument (p. 1) the FIRM also comments that the allocation of customer care costs has been made on an incremental basis since Decision 2000-88. This statement is inaccurate. Customer care costs are at full cost, as these costs are passed on from a third party. It is the entire RROT function which was evaluated on an

incremental basis. It was on this basis that the Board added the Share of Fixed Costs and Overhead item to the RROT revenue requirement. Decision 2000-88 contained extensive discussion on how customer care costs for the RROT were determined and ATCO Electric's Application is consistent with the findings in that Decision.

In its Argument (p. 1) the FIRM asserts that ATCO Electric has applied to the Board for approval of RRT non-energy costs substantially greater than either 2001 and 2002, based on recording an allocation of costs from Distribution as determined by ATCO Electric. This is not correct. ATCO Electric does not determine RRT costs based on an allocation of costs from Distribution. ATCO Electric receives one invoice from ITBS; and splits invoiced costs between RRT and DT based on allocation factors that reflect an estimation of where the services are consumed. This is fair and appropriate and consistent with past practice.

In its Argument (p. 2) the FIRM introduces information from another proceeding and then purports to draw a conclusion for the Board. The FIRM states that in FIRM-AE-4(d), ATCO Electric shows the forecasted call center hours at 19,977 hours for Distribution. It then submits that, in ATCO Electric's 2005-6 GTA, Schedule 31-B-24, shows the actual call center hours for 2003 at 9,025 hours, less than half the forecast hours. The comparison the FIRM is making is completely invalid, as the forecast hours cited are not reported on the same basis as the actual hours. The forecast includes AHA (After Hours Assistance) hours. However, effective Jan/2003 AHA hours were no longer reported, as this service was included within the fixed monthly fee of \$55,000 for Emergency and Outage Services. Thus, the 2003 actual hours reported exclude AHA hours.

The FIRM goes on to assert that, since calls would be the key determinant in call center agent hours, it would be expected that ATCO Electric would use the call volume and type of call to track and allocate activity and costs from DT to the RRT. While not providing any basis for such expectations, the evidence confirms that ATCO Electric does not forecast or track actual call volumes for DT and RRT separately

(FIRM-ATCO-3(a)). As indicated in FIRM-ATCO-3(b), ATCO Electric allocates actual Call Centre agent hours between DT and RRT based on its experience and judgment of where the agent hour services are being consumed. The allocations are reviewed on an on-going basis.

The FIRM goes on to state that it would be expected that ATCO Electric would use the call volume and type of call to track and allocate activity and costs from DT to the RRT. The FIRM's expectation reflects a very generic and simplistic analysis of call center operations. ATCO Electric has repeatedly pointed out that one call can relate to both DT and RRT. In addition, the duration of customer calls can vary significantly depending on the knowledge base of the customer and the subject matter. ATCO Electric's methodology for allocating costs between RRT and DT reflects a much more precise approach applicable to the environment in which ATCO Electric operates.

The FIRM claims that ATCO Electric has provided no reliable evidence to support the "actual" level of costs that have been allocated to the RRT from DT in 2003. ATCO Electric must correct the FIRM, as it does not determine RRT costs based on an allocation of costs from Distribution. As stated above, ATCO Electric receives one invoice from ITBS and splits invoiced costs between RRT and DT based on allocation factors that reflect an estimate, based on experience and judgment, of where the services are consumed. ATCO Electric has provided unit price and volume data for call centre agents, supervisors, and training in support of the costs allocated from the ITBS invoice to the RRT. ATCO Electric submits that the evidence it has provided clearly justifies the actual costs included in the Application.

The FIRM states that it would have expected to see further reductions to the DT to offset the increases allocated to the RRT in 2003, to ensure that these costs were not provided for in the DT 2003 forecasted costs (p. 2). As demonstrated in the Application, Schedule 6.1, the main cause of the increase of actual to forecast is attributed to changes in price and volume, not a reallocation between the RROT and the DT.

The FIRM also comments on the use of actual volumes. In Decision 2005-037 the Board concluded that actual 2003 and 2004 volumes are the most appropriate values to use for both the benchmarking and the ultimate calculation of the total charges payable when the Fee Schedules are confirmed or changed by the benchmarker(s) (p. 12). The Board went on to note that the filing of actual volumes for 2003 and 2004 should facilitate the determination of appropriate parameters and relationships to fully benchmark the MSA (p. 28). This exercise must also therefore include the actual RRO volumes.

ATCO Electric provided ITBS volumes in the current Application and responded to all information requests with respect to these volumes. ATCO Electric acknowledges that the unit prices remain subject to the benchmarking study. ATCO Electric reiterates that, consistent with Decision 2005-037, actual volumes are to be used for the finalization of ITBS costs for 2003 and 2004. There is no basis for inconsistent treatment of the RROT versus the DT. The evidentiary record has been established with respect to volumes in these proceedings and there is simply no basis to ignore this evidence. The Board can and should render a decision in this Application on the volumes used by ATCO Electric, as has been contemplated throughout.

ATCO Electric submits that actual DT volumes have been provided previously and approved. In this Application actual RRT volumes have been provided and tested. Likewise, they should be approved. The total of these two volume numbers will then be used in the benchmarking process and will fully address the issue raised by the FIRM.

2. Bad Debts

In its Argument (p. 6), the FIRM discusses ATCO Electric's Bad Debt Expense and its credit and collections expense. The FIRM requests that ATCO Electric be directed to continue collection efforts and report and include revenues from the recoveries of bad debts in subsequent adjustment filings. ATCO Electric stated in response to BR-ATCO-20(b), that it does not expect any further recoveries of bad debt

expense. The amount remaining with collection agencies is immaterial, and past experience dictates that the possibility of collection is minimal. ATCO Electric submits that there is no need for the requested direction. Rather, the matter should be finalized at this time.

3. Working Capital

As stated in response to FIRM-ATCO-14, ATCO Electric reduced billing cash inflows in January 2003 (related to 2002 consumption) by \$7,398,577 and included the cash inflows as part of the 2002 RRT deferral application. Similarly, ATCO Electric has reduced billing cash inflows in January 2004 (related to 2003 consumption) by \$5,490,090 and included the cash inflows as part of the 2003 RRT deferral application. These steps were taken in order to ensure that the proper amounts were included in the appropriate years for working capital purposes. Adjustments had to be made in order to accommodate timing lags and reflect the proper revenue each year. ATCO Electric has properly calculated working capital and the FIRM's assertions are without merit.

4. RRO Regulatory and Deferral Account Management

The FIRM's Argument relates solely to Deferral Account Management and neglects the work performed with respect to RRO Regulatory. A number of RROT applications and resulting decisions required the use of resources over this period, including the current Application. These costs are not hearing costs, but internal work by ATCO Electric to prepare and respond to a variety of applications. Calculating, recording, tracking, reporting and reconciling deferral account balances are incremental to the regulatory work. No changes to ATCO Electric's Application are required in this regard.

C. CONCLUSION

In summary, ATCO Electric requests the following decisions from the Board:

- approval of 2003 and 2004 ITBS volumes for RRO services to be used in the Benchmarking Study;
- approval of the revenue requirement shortfall for 2003 of \$2,711,700 and for 2004 of \$2,164,800 to be collected through ATCO Electric's next Rider Q application to be filed in the spring of 2006;
- recognition that the revenue requirement shortfall collection is interim subject to the final results of the benchmarking study.

ATCO Electric requests that the Board render a decision in this regard as expeditiously as possible, in order to facilitate the inclusion of the results in the 2006 Rider Q filing.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 16th day of February, 2006.


L.G. Keough
Counsel for ATCO Electric Ltd.