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Our File No.: 8794-2115

December 1, 2006

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

Att: Mr. Chris Burt  
Application Officer

Dear Mr. Burt:

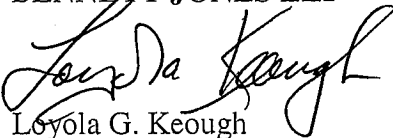
Re: Application No. 1482833  
ATCO Electric Ltd. – 2007 Interim Tariff Application

Further to the Board's Notice of Application, please find attached ATCO Electric Ltd.'s Final Argument for the above-noted proceeding.

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

Yours truly,

**BENNETT JONES LLP**

  
Loyola G. Keough

cc: Interested Parties

**ALBERTA ENERGY AND UTILITIES BOARD**

**APPLICATION NO. 1482833**

**ATCO ELECTRIC LTD.  
2007 INTERIM TARIFF APPLICATION  
FINAL ARGUMENT**

By Application dated November 8, 2006 ATCO Electric Ltd. ("ATCO Electric") requested approval of its proposed 2007 Interim Distribution and Transmission Facility Owner Tariffs pursuant to Section 102 of the *Electric Utilities Act*. In this Application ATCO Electric proposed that the 2007 Interim Tariffs be set so as to recover 100% of the revenue requirement for 2007 as specified in the 2007-2008 General Tariff Application previously filed by ATCO Electric.

In accordance with the schedule established by the Board for the consideration of the Interim Tariff Application, ATCO Electric received a number of Information Requests from the FIRM Customers. These Information Requests, to the extent that they can be viewed as reflective of the concerns of customers, did not appear to challenge the proposed method to be used to establish interim rates for 2007. Rather, the concern appeared to be largely focused on why ATCO Electric was requesting that 100% of the Distribution and Transmission revenue requirements for 2007 be approved on an interim, refundable basis.

In order to respond to this concern, it is necessary to step back and examine the goals or objectives one is seeking to achieve when establishing interim rates. Given that the rates are set on an interim, refundable basis, there is no issue of either customers or ATCO Electric "winning" or "losing" because of the level of the interim rates. As well, the Board should not be seen to prejudge or predetermine any matter before the Application is heard.

ATCO Electric submits that the goal or objective is to put in place rates that more closely reflect the circumstances that one expects to exist during the subject Test Year,

versus the rates that are currently in place. An attempt is being made to establish rates that will require the least adjustment after the final Application is heard. This leads to a consideration of how this end can best be achieved. Surely the answer is to rely on the best information available at the present time. ATCO Electric submits that the forecasts included in the 2007-2008 GTA represents the best available forecast of the circumstances that will exist during the 2007 Test Year. As such, this information should provide guidance as to the appropriate level of interim rates.

ATCO Electric would also observe that the upcoming GTA does not include several items that could be considered contentious when attempting to set interim rates, such as depreciation studies or new allocation methods. The impacts of these types of changes are typically not considered appropriate for inclusion in interim rates. As well, ATCO Electric has provided detailed business cases for its capital additions, for both Transmission and Distribution, as well as explanations for 2005 variances (forecasts versus actuals). The selective use of partial information from the past does not provide a basis for challenging the current forecasts, which are justified by current information. ATCO Electric has also provided detailed justifications for the forecast increases in operating costs. Based on the above, ATCO Electric reiterates its view that the forecasts included in the 2007-2008 GTA represent the most appropriate level of revenue requirement for establishing 2007 interim rates.

Furthermore, ATCO Electric would note that its proposed 2007 revenue requirement, for both Transmission and Distribution, does not include costs associated with items that were disallowed in the Board's 2005-2006 GTA Decisions (Decision Nos. 2006-024 and 2006-070).

ATCO Electric would observe that in its 2006 Interim Tariff Application Decision (No. 2005-133), the Board indicated that approving the distribution component of the tariff on the basis of not recovering 100% of the proposed revenue requirement would significantly under-recover the 2006 final revenue requirement. This would result in a rate increase later in the year, coupled with a rate rider to recover the resultant

shortfalls. The Board indicated that this approach would not result in rate stability. ATCO Electric submits that the same rationale is applicable in the context of the current Application.

As mentioned above, no significant concerns appear to have been raised with regard to the proposed method to be employed by ATCO Electric to establish interim rates for 2007. In fact, this Application is very similar to the 2006 Interim Tariff Application. ATCO Electric submits that the reasons for approving the scaling adjustment methodology in 2006 are still applicable in the context of the current Application. In short, the proposed scaling methodology, which was approved in Decisions 2005-133, 2006-024 and 2006-070 remain appropriate for establishing 2007 interim rates. The total scaling factor adjustment is comprised of two components, the first relating to the recovery of costs specifically assigned to the distribution function and the second component recovering TAP charges from the AESO.

As well, consistent with the 2006 Interim Tariff Application for Transmission connected customers, ATCO Electric has proposed to continue with its existing policy of directly flowing through the AESO DTS transmission charges. Any rate adjustment as a result of changes in the AESO's rates will be significantly easier to administer because of the flow-through nature of these rates.

ATCO Electric proposes to continue to utilize the deferral account approach to capture any differences that may arise as a result of the revenue requirement being changed by the Board's ultimate decision on the Phase I Application. Consistent with the 2006 Interim Tariff Application, any adjustments as a result of a difference between the interim tariff and the final tariff will be dispensed at a later date through a future Rider G Application.

A further component of the current Application is a request to approve ATCO Electric's Rider B – Balancing Pool Adjustment Rider. This Rider was implemented in 2006 as a result of the implementation of the AESO's Rider F. ATCO Electric is seeking

to adjust Rider B from a refund of \$1.0/MW.h to \$3.0/MW.h. It is important to note that the AESO is seeking approval of its 2007 Rider F from January 1, 2007 to December 31, 2007. In order to properly flow-through this refund to customers in ATCO Electric's service area it is critical that the proposed Riders are aligned. Implementing ATCO Electric's Rider B as quickly as possible, effective January 1, 2007, would reduce the administrative complexity with billing and would reduce the amount that may arise from the accumulation of a deferral.

For the reasons detailed above, ATCO Electric submits that its request to recover 100% of the forecast revenue requirements for 2007 on an interim refundable basis, effective January 1, 2007, is reasonable and appropriate and should be approved in the circumstances. ATCO Electric requests that the Board approve its Interim Tariff Application, as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 1<sup>st</sup> day of December, 2006.

  
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Bennett Jones LLP  
Counsel for ATCO Electric Ltd.