Alberta Utilities Commission

ATCO Gas

Application for Approval of Changes to ATCO Gas's Gas Settlement Process and Retailer Terms and Conditions for Gas Services

March 1, 2021

Alberta Utilities Commission
Decision 26013-D01-2021
ATCO Gas
Application for Approval of Changes to
ATCO Gas's Gas Settlement Process and
Retailer Terms and Conditions for Gas Services
Proceeding 26013
Application 26013-A001

March 1, 2021

Published by the:
Alberta Utilities Commission
Eau Claire Tower
1400, 600 Third Avenue S.W.
Calgary, Alberta T2P 0G5

Telephone: 310-4AUC (310-4282) in Alberta
1-833-511-4AUC (1-833-511-4282) outside Alberta
Email: info@auc.ab.ca
Website: www.auc.ab.ca

Contents

Alberta Utilities Commission

Calgary, Alberta

Application for Approval of Changes to ATCO Gas's Gas Settlement Process and Retailer Terms and Conditions for Gas Services

Decision 26013-D01-2021
Proceeding 26013
Application 26013-A001

1 Decision summary

1. In this decision, the Alberta Utilities Commission approves ATCO Gas's change to its gas settlement process, associated changes to its Retailer Terms and Conditions for Gas Distribution Service and to adjust its tolerance zones based on distribution system balancing requirements rather than maintaining alignment with those of NGTL. The Commission denies ATCO Gas's request to recover its Imbalance Reporting Information System (IRIS) upgrade costs through its Load Balancing Deferral Account (LBDA) and directs ATCO Gas to cover these costs using the indexing (I-X) mechanism under performance-based regulation (PBR).

2 Details of the application and procedural background

2. On October 26, 2020, ATCO Gas filed an application requesting approval of changes to its gas settlement process, changing retailer gas settlement from "in kind" to financial, as well as associated changes to its Retailer Terms and Conditions for Gas Distribution Service, by which retailers are invoiced or refunded for financially settling any gas settlement variances.

3. Currently, ATCO Gas forecasts its system's daily gas requirements each day, then allocates this forecasted volume to retailers based on the retailer's share of sites in the ATCO Gas service area. At one, two, and five-month intervals after the initial daily forecast, ATCO Gas revises the forecast to reflect information obtained from subsequent meter reads, tracking these revisions in the LBDA. Retailers are then required to either purchase gas from ATCO Gas (at twice the market price on the day of settlement) if their position is negative, or have any surplus purchased by ATCO Gas (at half the market price on the day of settlement).

4. Due to ATCO Gas's forecasting methodology not reacting in real time to gas price volatility, particularly in rapidly changing weather, ATCO Gas often underestimates the amount of gas required for its system, causing retailers to experience cumulative losses when forced to purchase gas at high market prices.

5. Changing to a financial settlement process, with ATCO Gas using the average gas price on the day of use to determine retailers' financial accounts, will eliminate the need for retailers to purchase gas from or sell gas to ATCO Gas to balance their accounts. This is expected to reduce the cashflow volatility that has been experienced by the gas retailers. In order to implement the proposed change, ATCO Gas has proposed changes to its Retailer Terms and Conditions for Gas Distribution Service and to adjust its tolerance zones based on distribution system balancing requirements rather than maintaining alignment with those of NGTL. As well, ATCO Gas must upgrade its IRIS. The costs to perform this upgrade are estimated at $170,000 and it has requested recovery of these costs through its LBDA. ATCO Gas advised that its support for the proposed changes was contingent upon the ability to recover these costs.

6. The proposed changes were arrived at following a stakeholder consultation process and the subsequent work completed by a retailer working group, comprised of a subset of the initial stakeholder group. Members of the retailer working group included Direct Energy Regulated Services (DERS), Direct Energy Marketing Limited (DEML), ENMAX Energy Corporation, ATCO Energy, Standard General, Shell Energy North America (Canada) Inc. (collectively the gas retailers), the Consumers' Coalition of Alberta (CCA), the Utilities Consumer Advocate (UCA) and APEX Utilities Inc. (formerly AltaGas Utilities Inc.).

7. DERS, ENMAX, ATCO Energy, and Shell each filed letters of support for this change to a financial settlement process. The UCA and CCA indicated that they would wait to comment until the application was submitted to the Commission.

8. The Commission issued notice of the application on November 23, 2020, in conjunction with a process letter and information requests to ATCO Gas. In the process letter, the Commission outlined an abbreviated process and advised that information requests would be limited to those asked by the Commission. Statements of intent to participate were received from DEML, the CCA, and ENMAX.

9. ATCO Gas submitted responses to the Commission's information requests on December 8, 2020. The CCA submitted argument on December 15, 2020. In its argument submission, the CCA raised concerns about the estimations that make up ATCO Gas's LBDA balance and urged the Commission to direct an investigation into why that was occurring. ATCO Gas submitted reply argument on December 18, 2020, and the Commission considers the record for this proceeding closed as of this date.

10. In reaching the determinations contained within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

3 Discussion of issues and Commission findings

11. ATCO Gas's application concerns three issues:

(a) Should the gas settlement process methodology and the associated changes to its Retailer Terms and Conditions for Gas Distribution Service be approved?

(b) Should the IRIS costs be recovered through ATCO Gas's LBDA account?

(c) Should the Commission direct an investigation of ATCO Gas's forecasting methodology?

3.1 Changes to the gas settlement process methodology

12. The Commission finds that the current "in kind" settlement process is vulnerable to price differentials due to the time lag between the initial gas allocation from ATCO Gas to retailers and the settlement adjustment. DEML and ENMAX both raised concerns about the unintended

consequences of the current "in kind" settlement process; DERS demonstrated that the estimated harm of the current gas volume settlement amounted to nearly $1 million in losses over the course of two months[1] and raised concerns about how these fluctuations may affect its customers.

13. The costs of the current settlement, due to recently increased market price volatility, have been significant to retailers. Moreover, there is no expected adverse impact from the proposed change on end-use customers.[2] Rather, end-use customers may benefit from improved operation stability of the retailers. Based on DERS' analysis, the method should significantly reduce the cost variations by aligning monthly cash settlement pricing to match the daily imbalance with the daily market price.[3]

14. The Commission agrees that the new settlement process will eliminate the price fluctuations between the day-of-use price and the prices used for each of the settlement intervals and supports its implementation. Therefore, the Commission approves the new settlement process, the associated changes to ATCO Gas's Retailer Terms and Conditions for Gas Distribution Service and the removal of the requirement for its imbalance window to match the transmission balance zone of NGTL to effect this change.

3.2 Recovery of the IRIS upgrade costs

15. IRIS is ATCO Gas's program that contains retailer accounts and is used by retailers and ATCO Gas to monitor the daily imbalance between gas supply and customer consumption, to issue gas supply nominations and to administer imbalance purchases/sales. As noted above, ATCO Gas estimated that the IRIS upgrade costs to implement the process change are approximately $170,000 and it is seeking to recover those costs through its LBDA. The LBDA was established to perform the load balancing function assigned to ATCO Gas in Order U2008-290.[4]

16. ATCO Gas currently operates under PBR. The costs for the initial setup of the gas settlement process and the IRIS system were part of its revenue requirement before the implementation of PBR and were recovered in rates under cost of service.

17. When questioned whether the IRIS upgrade costs should be recovered through the I-X mechanism under PBR, ATCO Gas responded that it should not because the change is not required to maintain service quality for its customers or to generate efficiencies for ATCO Gas. Rather, it stated that these proposed changes are for the benefit of retailers and their customers. Therefore, the decision to recover these costs through the LBDA is consistent with cost causation principles. Conversely, if the IRIS upgrade was funded through the I-X mechanism, these upgrade costs would be factored into future rates during the next PBR term.

[1] Exhibit 26013-X0002.

[2] DERS indicated that its customers experienced "harm" in the amounts of $807,000 for February 2019 and $946,000 for March 2019, and stated that the proposed changes to financial settlement would expose its customers to less financial load balancing volatility.

[3] Exhibit 26013-X0001, PDF page 28.

[4] Order U2008-290, Proceeding ID 68, Application No. 1575607, September 12, 2008.

18. The evidence on the record of this proceeding shows that IRIS upgrade costs have never been processed through the LBDA. In fact, previous recovery of IRIS costs has been done through other means. In Decision 2014-078, the Commission approved ATCO Gas's application to replace its then north and south LBDAs with a single, province-wide LBDA. In this decision, the benefits of making this change were expected to result in savings to retailers and customers and, as with the current application, the requested change required upgrades to IRIS. ATCO Gas confirmed that the $152,000 upgrade costs would be covered by the I-X mechanism under PBR.[5]

19. The Commission finds that recovery of the IRIS upgrade costs should also be covered by the I-X mechanism under PBR. ATCO Gas has provided no evidence to demonstrate why it could recover the $152,000 IRIS upgrade costs under its I-X mechanism in Decision 2014-078 yet is now seeking to recover the $170,000 IRIS upgrade costs outside of the PBR funding mechanism. Although in Decision 2014-078, there were some benefits accruing to ATCO Gas, the primary beneficiary of the change was the retailer. Similarly, the primary beneficiary of this change is also the retailer.

20. The Commission also rejects ATCO Gas's assertion that the IRIS upgrade costs should be recovered through the LBDA because these costs would show up in the next rebasing. This argument is speculative. The Commission has not yet determined the methodology for the next rebasing. Regardless, as previous IRIS upgrade costs were included in the 2018-2022 PBR rebasing, if these costs are included in the next PBR term, there is precedent to do so.

21. ATCO Gas proposed in the alternative that the IRIS upgrade costs could be recovered through a Y factor under PBR. As the Commission has determined that the IRIS upgrade costs should be covered by the I-X mechanism, there is no need for the Commission to consider whether these costs would meet the Y factor requirements at this time.

3.3 Investigation of ATCO Gas's forecasting methodology

22. In its argument, the CCA, while not expressing any opposition to the current application, raised concerns about the estimations that make up ATCO Gas's LBDA balance, "a consequence of significant daily over-estimated nominations by DERS for supply to DERS customers, and…estimated nominations [which] were based upon erroneous load forecasts provided by ATCO Gas."[6] The CCA stated that, rather than randomly fluctuating, the forecasts tended to be only in one direction, which led to retailers being overcharged.

23. The CCA urged the Commission to require ATCO Gas to investigate the reasons for the forecasted numbers causing mismatches primarily in one direction. In the CCA's view, without improving the daily forecast and settlement system (DFSS), the changes proposed may result in unfair charges to the retailers and/or the end use customers.

24. In its reply argument, ATCO Gas disputed the CCA's assertions that the DFSS forecast results are skewing the balances in only one direction. It submitted that the volatility in the LBDA is caused by market pricing and would be addressed by the new process. Further, it added

5 Decision 2014-078: ATCO Gas – Application for Administration of a Province-wide Load Balancing Deferral Account, Proceeding 3005, Application 1610221, April 3, 2014, paragraphs 23-24.
6 Exhibit 26013-X0014, paragraph 11.

that it already provides sufficient reporting as required by Rule 028: *Natural Gas Settlement System Code Rules*, and on its website.

25. The Commission is concerned by the issues raised by the CCA. If ATCO Gas's initial forecasting methodology is flawed in a way that results in bias against the gas retailers, the proposed changes to the gas settlement process may not fully address the significant overcharges experienced by the retailers. While the Commission does not have the evidence before it to determine if the forecasts are indeed biased, as alleged by the CCA, it believes that a review of ATCO Gas's methodology is warranted.

26. Normally, the sort of review contemplated above would be directed through a Rider L application, which occurs if the LBDA threshold (balance exceeds $5 million in the same direction for six consecutive months or $10 million in a single month) for a refund or collection is triggered. While the Commission considers this to be the most appropriate route, it also notes that a Rider L application has not been triggered since the establishment of ATCO Gas's province-wide LBDA in Decision 2014-078. Since the timing of a Rider L application is uncertain, the Commission believes that the review of ATCO Gas's forecasting methodology should proceed through a different avenue.

27. Since the changes proposed to the settlement process in the current application constitute a new approach, the Commission is interested in reviewing its efficacy. Therefore, the Commission considers it appropriate for ATCO Gas, in one year's time from the date of implementation, to submit a review of the operation of the financial gas settlement process, in order to demonstrate if the changes have eliminated the issues surrounding retailer cash flow volatility and have removed any potential forecasting bias against retailers. ATCO Gas must also provide a review of the accuracy of its DFSS forecasting methodology.

4 Order

28. The Commission approves ATCO Gas's change to its gas settlement process, the associated changes to its Retailer Terms and Conditions for Gas Distribution Service and ATCO Gas's request to adjust its tolerance zones based on distribution system balancing requirements rather than maintaining alignment with those of NGTL, all as presented in ATCO Gas's application.

29. The Commission denies ATCO Gas's request to recover its IRIS upgrade costs through its LBDA and directs ATCO Gas to cover these costs by its I-X mechanism.

30. The Commission directs ATCO Gas to implement the changes approved in this decision as soon as practicable and in any event, no later than the first day of use for the first of the month following the date of this decision. The Financial Gas Settlement process would then commence in the corresponding Settlement Run 1 based on that day of use.

31. The Commission directs ATCO Gas to review its forecasting methodology, identify any issues that would cause bias in its estimates and lead to consistent overcharges for the gas retailers, and propose reasonable changes to address any identified issues. The review should also include an assessment of the efficacy of the changes to its gas settlement process, approved

in this decision, in eliminating the issues surrounding retailer cash flow volatility and removing any potential forecasting bias against retailers. The results of this review are to be submitted one year from the date that ATCO Gas implements the changes approved.

Dated on March 1, 2021.

Alberta Utilities Commission

(*original signed by*)

Carolyn Dahl Rees
Chair

(*original signed by*)

Vincent Kostesky
Acting Commissioner