

May 27, 2022

Disposition 27397-D01-2022

Direct Energy Marketing Limited
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Calgary, Alta. T2P 3S8

Attention: Nicole Black
Director, Government & Regulatory Affairs

**Direct Energy Regulated Services – North and South
Default Rate Tariff
Gas Charge – June 2022
Proceeding 27397**

1. Direct Energy Regulated Services (DERS), a Business Unit of Direct Energy Marketing Limited, submitted its monthly filing on May 25, 2022, to the Alberta Utilities Commission for its proposed gas cost flow-through rate¹ (GCFR) for the month of June 2022 for customers served in the ATCO Gas² North and South service territories. DERS is the default supply provider for ATCO Gas. The proposed GCFR was \$7.971 per gigajoule (GJ).
2. In Order U2008-374,³ the Commission approved a return margin for DERS. Unlike the GCFR, the return margin is not subject to deferral account treatment through DERS' deferred gas account (DGA) but is to be recovered with the GCFR through DERS' Rider F. In Decision 26207-D01-2021,⁴ the Commission approved a return margin charge of \$0.053/GJ effective January 1, 2022, on a final basis.
3. In Decision 20363-D01-2015,⁵ the Commission approved a single GCFR for the ATCO Gas North and South service territories. DERS commenced the use of a single GCFR in its December 2015 monthly filing.
4. Directions for determining the GCFR were issued to gas utilities by the Alberta Energy and Utilities Board, predecessor to the Commission, in Decision 2001-75,⁶ and more specifically

¹ This rate for marketable gas, also known as a gas cost recovery rate (GCRR), is referred to as the gas charge under the *Default Gas Supply Regulation*.

² A division of ATCO Gas and Pipelines Ltd.

³ Order U2008-374: Direct Energy Regulated Services, 2009 Interim Default Rate Tariff and Regulated Rate Tariff, Proceeding 134, Application 1595512-1, December 11, 2008.

⁴ Decision 26207-D01-2021: Direct Energy Regulated Services, 2020-2022 Default Rate Tariff and Regulated Rate Tariff Interim Rates Application, Proceeding 26207, June 4, 2021.

⁵ Decision 20363-D01-2015: Direct Energy Regulated Services, Application for a Single Gas Cost Flow-Through Rate, Proceeding 20363, November 6, 2015.

⁶ Decision 2001-75: Methodology for Managing Gas Supply Portfolios and Determining Gas Cost Recovery Rates (Methodology) Proceeding and Gas Rate Unbundling (Unbundling) Proceeding, Part A: GCRR Methodology and Gas Rate Unbundling, Applications 2001040 and 2001093, Files 5680-1 and 5680-2, October 30, 2001.

to ATCO Gas North in Decision 2002-035,⁷ ATCO Gas South in Decision 2002-034,⁸ and to DERS in Decision 2003-106.⁹ However, in Decision 2009-238,¹⁰ DERS was given approval to remove energy-related charges for credit costs, working capital, bad debts and penalty revenue from the determination of the GCFR, which resulted in a change to the previously approved DGA procedures for DERS. The change was made effective August 1, 2010, by Decision 2010-317.¹¹ The respective charges and revenue will continue to be included in DERS' default rate tariff on a forecast basis and recovered through Rider F. DERS will be at risk for the difference between forecast amounts approved by the Commission and actual amounts incurred. In Decision 26207-D01-2021, the Commission approved the charge for certain energy costs of \$0.021/GJ, on a final basis, effective January 1, 2022.

DERS' carry forward balance

5. DERS' GCFR is designed to include a true-up of over- or under-collected amounts from any month in the subsequent month. The calculated gas rate for May 2022 increased significantly due to higher than expected gas prices and consumption in April 2022. This resulted in a deferred amount of almost \$8.2 million to be included in May's rates. To reduce the effect of this increase on consumers, DERS proposed to collect only approximately 21 per cent of this deferral balance in its May rates and to defer the remaining amount, as a "carry forward balance," to future rate filings. DERS' rates for May 2022 were approved in Disposition 27332-D01-2022.¹²

6. In the current application, for June 2022 rates, DERS noted that the forward curve for the natural gas market has climbed, and therefore proposed to only collect a portion of the deferral amounts, as it previously did in May. DERS submitted that it plans to collect the remaining amounts using a load-weighted approach from June 2022 to October 2022.¹³

7. Given the Government of Alberta's announced natural gas rebate program for gas rates exceeding \$6.50/GJ, which is expected to commence in October 2022,¹⁴ the Commission finds that it is prudent for DERS to close out the remaining carry forward balance by the end of September 2022. Accordingly, the Commission directs DERS to include, as part of its July 2022 GCFR filing, a proposal to recover the remaining carry forward balance over the period from July 2022 to September 2022 such that DERS' forecast closing DGA balance for September 30, 2022, is zero.

⁷ Decision 2002-035: ATCO Gas North, GCRR Methodology and Gas Rate Unbundling – Compliance Filing, Applications 1257378-1 and 1257516-1, Files 5627-46 and 5627-47, March 21, 2002.

⁸ Decision 2002-034: ATCO Gas South, GCRR Methodology and Gas Rate Unbundling – Compliance Filing, Applications 1257245-1 and 1257515-1, Files 5626-52 and 5626-53, March 21, 2002.

⁹ Decision 2003-106: Direct Energy Regulated Services, Electric Regulated Rate Tariff and Gas Default Rate Tariff, Application 1302109-1, December 18, 2003.

¹⁰ Decision 2009-238: Direct Energy Regulated Services, 2009/2010/2011 Default Rate Tariffs and Regulated Rate Tariffs, Proceeding 149, Application 1600749-1, December 3, 2009, paragraph 140.

¹¹ Decision 2010-317: Direct Energy Regulated Services, 2009/2010/2011 Default Rate Tariffs and Regulated Rate Tariffs Compliance Filing, Proceeding 468, Application 1605840-1, July 8, 2010.

¹² Disposition 27332-D01-2022: Direct Energy Regulated Services, North and South Default Rate Tariff Gas Charge - May 2022, April 28, 2022.

¹³ Exhibit 27397-X0006, Attachment 1 DERS June 2022 GCFR Backup.

¹⁴ Alberta's Recovery Plan, Affordability programs, <https://www.alberta.ca/affordability-programs.aspx>

Carrying costs

8. DERS included a request to charge interest (also referred to as carrying costs) on the amounts it deferred from May 2022. DERS forecast carrying costs of \$61,949 to be included in rates from June 2022 to October 2022. DERS included carrying costs of \$14,896 in the submitted June 2022 GCFR. DERS referred to its intention to request carrying costs as part of its May 2022 filing. While the Commission approved the deferral request, it declined to pre-approve carrying costs. The Commission reminded DERS of the requirements in Rule 023: *Rules Respecting Payment of Interest* and indicated that DERS would need to address these requirements if it wished to apply for carrying costs as part of a future filing.

9. In the current filing, DERS asked the Commission to approve the collection of interest notwithstanding that it did not satisfy the Rule 023 requirement that the balance be outstanding for at least 12 months. DERS acknowledged this and provided reasons to support the Commission granting carrying costs:

- The Carry Forward Balance was proposed for the benefit of customers, so as to not immediately visit upon them the dramatic increases in natural gas prices brought about by the deferral mechanism. The consequential carrying costs are real costs, and DERS should not be dis-incented from assisting DERS' customers in the future by not allowing the recovery of these just and reasonable costs.
- The amount by which the Carry Forward Balance exceeds the highest threshold amount of \$1 million. The degree to which the "outstanding balance" exceeds the threshold amounts in paragraph 3(2)(b) in Rule 023 properly weighs in favour of the Commission exercising its discretion to allow the recovery of associated carrying costs.
- As noted, new section 3(2) of Rule 023 would not on its face be a bar to recovery of carrying costs if DERS waited to seek recovery of the carrying costs associated with the Carry Forward Balance until May 2023. In May 2023, the total carrying costs associated with the Carry Forward Balance will be materially greater than the total carrying costs DERS seeks to recover in 2022. DERS submits that the AUC should exercise its discretion in a way that encourages timely applications for the recovery of carrying costs.¹⁵

10. The Commission denies DERS' request to charge interest on the deferred amounts. As noted above, the requirements to be eligible for the payment of interest under *Rule 023* are not met. Specifically, the deferred amounts have not been outstanding for a period of 12 months or more, and the Commission has directed DERS to collect the remaining balance by the end of September 2022. Additionally the Commission considers the interest amounts totalling \$61,949 are neither material nor of meaningful impact to DERS. Finally, the outstanding amount in question was deferred at the request of DERS; it was not required to do so by an external authority or at the Commission's direction. Based on the foregoing, the Commission does not consider carrying costs are justified in the present circumstances.

¹⁵ Exhibit 27397-X0001, cover letter, PDF page 5.

11. For the month of June 2022, the Commission has excluded carrying costs from the GCFR and recalculated the GCFR. The following amounts are included in setting Rider F for customers served in the ATCO Gas North and South service territories:

	\$/GJ
GCFR	\$7.963
Reasonable return margin	0.053
Forecast energy-related charges	0.021
Rider F	<u>\$8.037</u>

12. The Commission has reviewed the filing and accepts that the proposed GCFR was calculated on a monthly flow-through basis in accordance with Section 3(5) of the *Default Gas Supply Regulation*. Consequently, the Commission acknowledges for DERS the recalculated GCFR of \$7.963/GJ, which is to be applied to all energy sold to customers served by DERS under low-use delivery service, mid-use delivery service, high-use delivery service and irrigation delivery service in the ATCO Gas North and South service territories during the month of June 2022.

13. The Commission also directs DERS to refile the GCFR documents reflecting the disallowance of carrying costs as a post-disposition document to the record of this proceeding, **by no later than June 10, 2022.**

14. As directed in Decision 2001-75, a 30-day review period was provided to interested parties following the filing of each monthly GCFR in which parties could raise any concerns with the GCFR, price and volume forecasts, and prior period reconciliations. As DERS is the default supply provider for ATCO Gas, the 30-day review period is similarly applicable to the GCFRs requested by DERS.

15. The Commission may, within 60 days of the date of this disposition and without notice, correct typographical, spelling and calculation errors and other similar types of errors and post the corrected disposition on its website.

(original signed by)

Carolyn Dahl Rees
Chair
Alberta Utilities Commission