

NATURAL GAS UTILITIES

How is Alberta's natural gas provided to you?

Natural gas is delivered to customers by a regulated **distributor**. A customer has the choice to be billed for natural gas service by a regulated **retailer**, which provides the gas cost flow-through rate, or a non-regulated retailer.

How has the restructuring of the natural gas industry affected Alberta and the rates consumers pay?

Restructuring of the natural gas retail industry commenced when the Government of Alberta enacted the "Gas Utilities Core Market Regulation" and the "Municipal Gas Systems Core Market Regulation" under the Gas Utilities Act and the Municipal Government Act respectively on March 13, 1995. This legislation enabled all Alberta gas customers to buy natural gas directly from suppliers; it was the transition to a competitive market. Pursuant to this legislation, regulated natural gas utilities filed rate applications with the EUB, now known as the Alberta Utilities Commission (AUC), to set new rates and new terms and conditions of service. The process provided a framework, which has been refined as a result of subsequent rate applications, that allows customers to make an economic decision whether they will remain as a sales customer of the regulated utility or pursue direct purchase via a competitive retailer.

Utility restructuring has impacted the AUC's rate-making jurisdiction. There are two main components to utility rates: the charges for the energy commodity itself and the charges relating to the delivery of the energy to a customer's home. In the restructured natural gas industry, different companies may now provide these components. While the delivery component remains fully regulated, the energy charges are now determined in a competitive marketplace. Eligible customers may choose to continue receiving their energy on a regulated basis, or they may choose to obtain their energy from a competitive retailer. It is the AUC's responsibility only to review these regulated energy charges to make sure that they are being passed along accurately to customers.

How does the AUC regulate utilities within its jurisdiction?

The AUC regulates investor-owned natural gas distributors and regulated retailers, setting their terms and conditions of service, as well as their rates. In establishing rates, our mandate is to balance the interests of both customers and the utility companies. It is the AUC's responsibility to ensure that customers receive safe and reliable service at just and reasonable rates. In setting rates through a rate application, we must allow a utility to recover its reasonable costs of providing the service, including a fair return on its investment, in order that it

will be financially viable and able to provide customers with adequate service now and in the future.

What is a rate application?

A rate application to the AUC is required when a utility wants approval to change its rates. The rate application is typically dealt with in a two-phase process. The first phase determines how much revenue the utility requires to operate and earn a fair return on its investment. The second phase determines the amount of revenues that should be recovered from each rate class; this is predominantly based on the cost to provide service to the rate classes. The second phase of an application also reviews the terms and conditions of service.

Most rate applications are approved during the course of an oral public hearing, with the exception of those handled in a written process or a negotiated settlement. Hearings are a quasi-judicial process following the rules of natural justice with formal procedures. The typical hearing steps are

- receipt of application
- issuance of a public notice of hearing
- interrogatories to applicant
- intervener evidence
- interrogatories to interveners
- possible rebuttal evidence
- hearing
- argument and reply (usually written)

In the case of a negotiated settlement, the utility negotiates its rates with representatives of customer groups, with the AUC acting as an observer. Once negotiations have been successfully concluded, rates determined by a negotiated settlement have to be filed with and approved by the AUC before they can take effect.

As part of AUC policy, a decision must be issued within 90 days of the close of the proceeding, whether it included a hearing or was a negotiated settlement process, with written reasons for the Commission's findings.

What do I pay for when I pay my natural gas bill?

There are two main components to natural gas rates: the charges for the energy commodity itself and the charges relating to the delivery of the energy to a customer's home. While the delivery component, which represents the cost of transporting gas to a customer, remains fully regulated by the AUC, the energy charges are now determined based on the cost to purchase natural gas in the competitive marketplace. The AUC has no control over the cost of gas in the competitive marketplace. Rather, the AUC ensures that the retailer accurately passes along the wholesale market price of the natural gas commodity to its

customers. Other components of natural gas rates include municipal franchise fees and GST.

Gas commodity costs have been extremely volatile since 1999 due to North American market factors. However, delivery charges have remained relatively stable, increasing gradually over the years to accommodate the rising costs of distributors.

The natural gas distributor has **delivery charges**, including both a fixed charge and a variable charge, that are designed to recover the costs related to the delivery of natural gas to your home. The **fixed charge** recovers those costs that do not vary with consumption of gas. These include the design, installation, and financing of pipelines and meters. The **variable charge** recovers the utility's costs that vary depending upon the consumption of natural gas. These are principally related to capital and operating costs, including labour, materials, and supplies.

The **franchise fee** is designed to recover the fee paid by the distributor to the municipality in which you reside, for use of public rights-of-way.

In addition, there are now two riders on bills of customers in the ATCO Gas South service territory; the Company-Owned Storage Rate Rider (COSRR) and the Company Owned Production Rate Rider (COPRR). These riders vary on a monthly basis and usually result in a reduction on the delivery charges for customers. ATCO Gas South files a monthly rate for these riders with the AUC for approval.

Prior to the transition to a competitive market, all customers paid for the cost of storage and production assets, and historically customers using company-supplied gas realized a benefit from use of these facilities through a credit to the cost of gas. But, customers taking competitive supply from a retailer did not receive any of the benefits from these assets. The AUC decided that all customers, whether receiving gas from a regulated retailer or from a competitive retailer, should share in the costs and benefits from their ongoing value. These costs and benefits are passed on to customers through the COSRR and the COPRR. Because this is a transfer of charges from the cost of gas to the delivery rates, there is little or no net impact for most customers on their total gas bill.

The cost of gas is the rate charged by the retailer to recover the cost of purchasing natural gas for customers.

What is the cost of gas rate and how is it

The price that consumers pay for the gas commodity portion of their bill is called the Gas Cost Flow-Through Rate (GCFR) for Direct Energy Customers and the

determined?

Gas Cost Recovery Rate (GCRR) for AltaGas Customers. The AUC does not set natural gas prices in Alberta. Natural gas prices are set in an open and competitive market and are influenced by many variables throughout North America. The monthly prices used by retailers merely reflect market conditions. The AUC has established a framework for the retailers to file their costs monthly, based solely on market factors, without any mark-up on the price of gas. Under this framework, the AUC reviews the GCFR or GCRR applications to ensure that only the actual cost of the gas is passed on to customers. Once verified by the AUC, interested parties have 30 days to file any objections to the rate.

The retailers establish what their cost of gas rate should be each month by first forecasting the consumption for the upcoming month. The forecast price is then determined using published Alberta Energy Company (AECO) storage facility monthly and daily indices.

Most of the gas purchases made by the retailers from the market are on either a monthly or a daily basis. The AECO monthly index is generally used for gas purchases that the retailers believe can be acquired without exceeding the minimum expected consumption on any day in a given month. The daily index is used for other volumes that may be required. In addition to gas purchases, the cost of gas rate includes estimated gas supply-related management and administration costs that are incurred by the gas retailers.

During the course of the month, commodity costs may vary from the forecast because of changes in demand or market price. In order to reconcile what customers are charged through the cost of gas rate with actual gas market costs, any surpluses or deficits are placed in a deferred gas account. Any amount in the deferred gas account at the end of a month is included when determining the cost of gas for the next month.

Why does the price of natural gas change so much?

Alberta has a policy that allows the marketplace to determine natural gas prices. Alberta's gas prices are influenced by supply and demand of natural gas throughout North America and other factors such as changes in transportation costs, infrastructure constraints or weather.

While past increases in the market price of natural gas have caused related increases in customer rates through higher cost of gas rates, market price decreases at other times have resulted in lower rates and, in some cases, direct refunds or credits to customer accounts as well.

To help customers manage volatility associated with the cost of gas, gas retailers offer budget plans, under which a customer makes the same monthly payment, typically over a twelve month period, however it can be adjusted if the retailer

feels it is necessary. The monthly budget amount is based on estimated consumption and estimated future market prices. Also, competitive gas retailers currently offer fixed-price contracts for periods of one to five years.

How are regulated natural gas prices determined?

Gas markets have changed significantly since gas commodity prices were first deregulated in 1986. Sales now tend to be on a short-term basis, as opposed to long-term contracts, and the market has moved from separate regional areas toward a North American marketplace. As a result, market conditions throughout North America impact supply, demand, and the price for natural gas. Since 2000, the gas market has experienced a significant degree of volatility.

Natural gas can be traded or priced at various locations. Major trading locations are referred to as hubs, geographic points where gas can be readily bought or sold. Storage facilities are usually available at hub locations. In Canada, the main hub location, referred to as AECO-C, is near Suffield, Alberta. It and the Henry Hub in Louisiana are the two key hubs on which North American pricing is based. The AECO storage facility serves as an Alberta natural gas price indicator, in the same way West Texas Intermediate serves as a price indicator for crude oil. When there are no pipeline capacity restrictions, prices in Alberta generally follow the prices in continental North America.

Natural gas can be traded electronically, and future contracts can be traded on the New York Mercantile Exchange. Electronic trading allows for rapid response to changing market conditions and consequently to changes in demand and supply. As with any market-based exchanges, gas prices may be affected in the short term by interpretations of events by traders and analysts. For instance, natural gas prices have been influenced by changes in crude oil prices.

Canadian gas production supplies virtually all of Canada's domestic requirements. Presently, about half of the gas produced in Canada is exported to markets in the United States. Natural gas prices on the Canadian market have been comparable to export prices.

What factors affect natural gas prices?

Various factors influence the supply and demand for gas, and thus its price, including economic growth, weather, storage, production, pipeline capacity, and availability of alternative fuel sources.

When an economy is strong, the demand for energy is high. Natural gas is a clean-burning, efficient form of energy, and its use has increased as growth in the residential, commercial, and industrial sectors occurred. Its use in firing turbines for generating electricity has also increased.

Price is strongly affected by demand, which is highly dependent on the weather, particularly with respect to cold and hot extremes. Cold weather was normally associated with increased demand of gas for heating purposes, but hot weather now also increases demand because of the need for electricity for air conditioning.

Storage can also significantly influence gas prices, as inventories of gas provide suppliers with the ability to meet peak demand requirements. Short-term prices, in particular, can be affected by the availability and deliverability of gas from storage.

Price also depends on availability of supply. Production has weakened recently, due to the acceleration in the maturity of North American wells. Less gas is being produced from these wells, which needs to be offset by new exploration and drilling. Most of the gas produced in Canada presently comes from the western Canadian sedimentary basin, which is located in Alberta and in parts of Saskatchewan and British Columbia.

Tied to production and pricing is the availability of pipelines needed to transport gas to the various regional markets. New pipelines are only built in accordance with expectations of demand and price.

Competing fuels affect gas prices too. Dramatic changes in gas prices may cause customers to switch temporarily or permanently to other fuel sources, depending on individual circumstances. Switching from gas to coal as a fuel for generating electricity when gas prices increase is one example of the effect that competing fuels may have on gas prices.

Where can I find current delivery rates and the cost of gas for AUC-regulated utilities?

Current rates can be found on the AUC Web site at www.auc.ab.ca or by calling Consumer Relations at 780-427-4903; to call toll free, dial 310-0000 first then enter 780-427-4901 and press 1. Alternatively, you may contact your retailer directly.

Do I have to continue to buy my gas from my current retailer?

For most Albertans, the answer is no. Most of us now may purchase natural gas from a competitive retailer. However, customers of municipally owned natural gas utilities and customers of natural gas co-ops do not presently have the option of purchasing their natural gas from an independent marketer. Also, while customer choice is permitted in the AltaGas service territory, no retailers are currently serving any residential customers in the communities served by AltaGas. Therefore AltaGas provides both distribution and retailer services to its residential customers.

If you are in an area where you are able to change retailers, to do so you must enter into a contract with a competitive retailer to purchase natural gas at an agreed-upon price. The AUC does not regulate the price you will pay, or the terms of your contract with the competitive retailer.

If you purchase gas from a competitive retailer, you will continue to receive delivery of this gas from your distribution company, such as ATCO Gas. In addition to transporting the natural gas to your home, your distribution company will still provide services such as meter reading and furnace inspections. The costs associated with the delivery of natural gas service incurred by the distributor, are recovered through their delivery charges, which are approved by the AUC.

Whom do I contact if I have inquiries or concerns about my natural gas service?

Concerns about service problems, such as outages, and meter reading issues should be raised with your distribution utility. Any concerns respecting your billing should be raised with your retailer.

Regulated Retailers for Natural Gas:	Toll-Free Phone Number:	Natural Gas Distributors:	Toll-Free Phone Number:
AltaGas Utilities	1-866-222-2067	AltaGas Utilities	1-866-222-2067
Direct Energy	1-866-420-3174	ATCO Gas	310-5678
Regulated Services			

What are the terms and conditions of service, and who must abide by them?

Terms and conditions of service are approved by the AUC in rate applications to provide guidelines, regulations, and rules for the distributor, the retailer and the customer to adhere to respecting the non-rate aspects of service. You agree to abide by the terms and conditions of service by accepting natural gas service. Copies of the terms and conditions of service may be obtained from your distributor, your retailer or on the AUC website at www.auc.ab.ca. The purpose of the terms and conditions of service is to bring guidance and standardization in quality of service and clarity on specific contentious issues. Only provincial and federal legislation would supersede any or all portions of the terms and conditions of service.

When may a utility disconnect my natural gas service?

A distribution company may terminate your service for reasons such as; if you violate the service regulations, for example tampering with any service, piping, meter, regulator, or any other facility, or if your attached piping or equipment is so hazardous that it is a safety concern. Notice of disconnection may or may not be given, depending on the approved terms and conditions of service for each distributor.

A retailer may also request the distributor to disconnect service if you neglect to pay your bill by the payment deadline. Failure to receive a bill does not release you from your obligation to pay the retailer.

Disconnection of natural gas service may occur at any time, even in winter, if the utility abides by the service regulations. If your account has not remained in good standing with the retailer and a pending disconnection notice has been issued, you are required to call the financial collection department of the retailer to make payment arrangements that are satisfactory to the retailer. These payment arrangements are binding, like a contract, and if you fail to complete the terms agreed upon, disconnection of service can occur without further notice.

You may terminate service by providing your retailer with notice. The amount of time required for notice is specified in their respective terms and conditions of service.

Prior to having the service reconnected, the retailer may request payment of

- all amounts owing to the retailer,
- the applicable reconnection fee (as per terms and conditions of service rate schedule), and
- a security deposit, if required, according to the terms and condition of service.

What is a security deposit, and when is it required?

A security deposit is money paid to a retailer to secure payment when a customer has not been able to demonstrate credit worthiness. The maximum deposit varies as per the approved terms and conditions of service for each retailer.

Security deposits are means for the retailers to recover any outstanding amounts owed by the customer, or bad debt. Any bad debt expense incurred by the retailer is an expense that can be recovered through the rates of all customers. Therefore, it is essential that all debt is recovered and the customer pays for the service provided in order to keep rates reasonable for all customers.

A retailer may request a deposit or increase an existing deposit for reasons such as:

- you cannot demonstrate a satisfactory credit rating,
- you paid a bill late more than once in a specific time period,
- your cheque has been returned for insufficient funds in a specific time period,
- there has been a substantial increase in your average monthly consumption, or
- you request reconnection of service after having been disconnected for nonpayment.

The retailer has the sole discretion to waive a security deposit. A deposit may be applied against any outstanding balance for unpaid bills. The security deposit is returned when your service is terminated and the account is closed or when a satisfactory payment history is achieved. After a specified period of on time, full payments, the retailer is required to return the deposit and pay interest to the customer for the money held in trust. For specific guidelines and time frames, refer to the appropriate retailer’s approved terms and conditions of service.

How often is my gas meter read?

Frequency of meter readings depends on the meter reading costs approved by the AUC in a General Rate Application (GRA). Distributors generally read gas meters monthly or at such other intervals that are reasonable and practicable under existing circumstances. When a meter reading is not available for a billing period, distributors are allowed to estimate consumption during that period of time, taking into consideration your historical consumption and seasonality.

What is the annual natural gas consumption of a typical customer?

A typical residential customer uses about 120 gigajoules (GJ) of natural gas in a year. Since gas consumption is so dependent on the temperature, the average usage varies greatly by month, as noted below.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
20	16	15	9	6	4	3	3	5	9	13	17	120 GJ

What do I do if I think my meter is registering inaccurately?

If you think there is an error regarding the amount of metered consumption, you may question your distribution utility. If you are not satisfied with the response from the distributor, you may contact Measurement Canada to have the meter in question tested or calibrated, subject to a fee at your expense. If the meter in question is found to be accurate within the limits prescribed from time to time by Measurement Canada, no adjustment will be made to your billings. However, if the test of the meter discloses that it is not accurate within the prescribed limits, then any meter handling and meter testing fees you paid will be refunded and the billings adjusted accordingly.

Contact Measurement Canada in

Edmonton at (780) 495-2491

Calgary at (403) 292-5606

What if I am unhappy with the service provided by my utility company or need further information?

Concerns about service problems, such as outages, and meter reading issues should be raised with your distributor. Any concerns respecting your billing should be raised with your retailer. If you are still dissatisfied after speaking directly with the retailer and/or the distributor, you may contact the AUC for assistance.

The AUC deals with complaints respecting those companies that it regulates. The AUC regulates all investor-owned distribution utilities and regulated retailer providers to ensure that they are providing customers with safe and adequate service at just and reasonable rates.

It is important to understand that the AUC's authority to deal with your complaint is limited to certain legislated powers, which mainly include the terms, conditions, and rates under which a regulated utility provides services to its customers. In some situations, your dispute may be beyond the AUC's jurisdiction.

What are Service Quality and Reliability Plans, and how do they affect the level of service provided by utilities?

Owners of natural gas utilities have always been required to provide safe and adequate service. With the proclamation of the Gas Utilities Act, 2003, S.A. 2003, on June 15, 2003 (GUA), the Alberta Energy and Utilities Board (now AUC) gained the legislative authority to make and enforce rules respecting service quality standards of natural gas utilities. This legislation also authorizes the AUC to impose penalties on distributors and regulated rate providers and to require the payment of credits to customers as compensation for a utility's failure to meet the rules respecting service quality standards.

On December 19, 2003, the AUC's predecessor, the EUB, issued Directive 002, now known as [Rule 002](#), and Directive 003, now known as [Rule 003](#).

Rule 002 sets out the standards by which a distributor's performance will be measured and requires the distributor to monitor and report the results of its performance in these areas. Rule 003 sets out the standards by which the retailer's customer service performance will be measured, and likewise requires the retailer to monitor and report the results of its performance in these areas.

At this time, the only penalty provision is in Rule 003, which allows for a \$75 credit for customers disconnected from service in error.

How do I make a formal complaint to the AUC?

The [Public Utilities Act, formerly the Public Utilities Board Act](#), and the [Alberta Utilities Commission Act](#) grant the AUC the jurisdiction and power of investigation of utilities and rates.

If you are not satisfied with the response of your utility company, please contact the AUC by telephone, letter, fax, or e-mail, detailing the nature of the issue, the facts surrounding the complaint, and the action you would like. Please note that complaints need to be received in writing to proceed to a more formal review level at the AUC. This correspondence must indicate your permission for the AUC to investigate the matter on your behalf and allow the utility to release personal information to the AUC.

AUC Edmonton Office

Phone: 780-427-4903

Fax: 780-427-6970

Email: utilitiesconcerns@auc.ab.ca

Address: 10055 - 106 Street, Tenth Floor, Edmonton, Alberta T5J 2Y2

In addition, the AUC has recently updated and published [AUC Information No. 5: Utility Concerns: How to Make a Complaint to the AUC](#), which may be of assistance. This series of questions and answers is available on the AUC Web site at www.auc.ab.ca, along with a Customer Complaint Form for your convenience.

What happens to my complaint?

AUC staff will let you know by letter, e-mail, or telephone that the AUC has received your written complaint. If we do not need an explanation from the utility in question, we will send you information directly from our office. However, usually we contact the utility first and have it report back to us or to you regarding your inquiry. We will then review the utility's response and contact you by letter, explaining our findings. The time it takes to deal with the complaint depends on the nature of your complaint and the complexity of the issue. Sometimes a public hearing may be required to resolve the complaint. If you are not satisfied with the resolution or information provided, you may contact the AUC for further clarification. This process will not change the rates and regulations approved by the AUC in current decisions.

What happens if my complaint is outside the EUB's jurisdiction?

For information on retail marketers of natural gas and electric power, contact Utilities Consumer Advocate from anywhere in Alberta 310-4822 or check out the Utilities Advocate's Web site at www.ucahelps.gov.ab.ca.

For questions about services provided by competitive retail marketers of natural

gas, and electric power contact them directly.

You might also consider pursuing your complaint through the Office of the Utilities Consumer Advocate (UCA). Alberta's UCA and his staff hear and deal with concerns about utility service in the province. They monitor customer issues to identify patterns and trends and provide an analysis of this information to consumers, utilities, government, and regulators to make sure consumer concerns are heard. A key function of the office is monitoring proceedings of the AUC and other regulatory bodies to ensure that decisions take residential, small business, and farm customer concerns into account. They may directly intervene in regulatory proceedings or put consumers in touch with like-minded individuals or groups already making their case before the regulators. You can reach the UCA by phone anywhere in Alberta at 310-4822; by e-mail at ucahelps@gov.ab.ca; or on the Web at www.ucahelps.gov.ab.ca.

Although the Office of the Utilities Consumer Advocate does not duplicate the investigation procedures of the AUC, it will be able to monitor a complaint to ensure that future regulatory proceedings address the customer's concerns.

For concerns about municipally owned gas utilities, contact your local service provider, local council members, or mayor. The AUC has limited authority over these municipal utilities, restricted to investigating complaints when a consumer believes rates are discriminatory, improperly imposed, or fail to conform to the rate structure established by the municipality.

For concerns about natural gas cooperatives, contact the co-op manager or directors or the Rural Utilities Branch at:

Rural Utilities Branch Department of Agriculture

Food and Rural Development, Planning and Competitiveness Sector
Petroleum Plaza
North Tower, 5th Floor, 9945 -108 Street
Edmonton, Alberta T5K 2G6
Telephone: (780) 427-0944 (to call toll free, dial 310-0000)

Note that the AUC has limited complaint authority over natural gas co-ops. It may hear complaints about terms of service, service charges, and rates or tolls if a customer thinks they are discriminatory, improperly imposed, or fail to conform to the co-op's established rate structure. Anyone wishing to receive gas co-op services may file a complaint with the AUC if that service is not provided. These complaints must be sent by registered mail to both the AUC Chairman and to the Chief Officer of the Rural Utilities Branch.

What protection do customers have regarding service provided by competitive retailers?

Retailers wishing to sell to the core market—comprising residential, farm, and small businesses consumers—have to be licensed by Service Alberta under the *Fair Trading Act* and post a \$250,000 bond. They also have to follow a strict code of conduct with respect to the marketing of their services to the core market. If you choose to sign a competitive retail market contract as an agreement for natural gas supply to your site, you have a 10-day “cooling-off” period during which you may cancel the contract.

If you have questions, further information about licensing requirements of licensed retailers is available on the Service Alberta Web site at www.servicealberta.ca or by calling the Consumer Services division toll free at 1-877-427-4088.

Where can I learn more about my options and choices?

To learn more about the emerging natural gas marketplace and the choices that Albertans now have regarding their natural gas services, visit the Utilities Consumer Advocate’s Web site at www.ucahelps.gov.ab.ca

Additional Information

For additional information on the AUC or its processes or if you have general questions about utilities in the province of Alberta, contact the AUC: Monday to Friday (8:30 a.m. - 4:30 p.m.), at (403) 592-8845.

This AUC Information No. 4 is one in a series.

- [No. 1](#) *What Is the Alberta Utilities Commission?*
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- [No. 3](#) *Electricity and the AUC*
- [No. 4](#) *Natural Gas Utilities*
- [No. 5](#) *Utility Concerns: How to Make a Complaint to the AUC*

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To call the above numbers toll free, dial 310-0000.