

May 1, 2009

To: 2009/10 Administration Fee Assessment Recipients

RE: 2009/10 Administration Fee

As you are aware the Alberta Utilities Commission (AUC) recovers its operating and capital costs through an assessment of the natural gas and electricity sector participants (companies and AESO) that it regulates. The AUC uses a cost assessment model to allocate cost responsibility among industry sectors and to set fees for specific participants within each sector. The assessed fees are then passed on directly to customers and market participants. Early in 2008, shortly after establishing operations, the Commission retained the services of KPMG to develop a model to be used to recover the AUC's annual costs. KPMG's report can be viewed on the AUC's website by [clicking here](#).

Based on that model in consultation with stakeholders, the AUC established a new cost assessment model to ensure that the methodology was consistent with the AUC's new legislative responsibilities and current mix of stakeholders.

The adopted model allocates cost responsibility in two steps. The first step assigns direct costs and allocates common costs to each category of market participants (e.g., electric distribution, gas transmission etc.) based on estimates of staff effort spent in each category. The second step allocates the responsibility to recover the costs within the categories to the participants in those categories based on their revenues and number of customers.

During the 2009/10 fiscal year, Nova Gas Transmission Ltd. (NGTL) transferred from provincial jurisdiction to federal jurisdiction. This was an extraordinary event that will have a significant impact on this year's administration fee allocation. In addition, there is an additional impact caused by improvements to the accuracy of cost and revenue data filed by certain participants and used to allocate cost recovery responsibility to individual stakeholders.

As outlined in Rule 025 the 2009/10 administration fee will be collected in two portions. The initial portion will occur in early May and represent the AUC's estimated net expenditures for April to December. The second portion, representing the remaining three months of the AUC's fiscal year, will occur in late November. The global 2009/10 administration fee is decreasing by a total of 2.1% or approximately \$0.6 million from 2008/09. The administration fee is based on a budget of \$31.8 million for 2009/10 as compared to our 2008/09 budget of \$32.7 million. The AUC's budget for 2009/10 was approved by Treasury Board in 2007 at \$35.2 million. The AUC has chosen to manage its operation in 2009/10 to a budget of \$31.8 million. Because of NGTL's departure, and other factors however, the allocations to each category of participant have increased between 7% and 11% for all categories except for gas transmission which has decreased by approximately 60% (see attachment for details).

The large gas transmission decrease and the corresponding increases in other sectors are largely attributable to NGTL's transfer to federal jurisdiction. NGTL's departure has allowed the AUC to realize a \$1.0 million saving in direct costs associated with NGTL regulation. NGTL's portion of the 2008/09 administration fee was approximately \$4.0 million. The \$3.0 million balance of NGTL's 2008/09 administration fee recovered common costs of the AUC that remain largely unchanged by the transfer of NGTL to federal jurisdiction. Those common costs must, therefore, be allocated to the remaining participants for recovery from their customers.

As a consequence of the NGTL transfer as well as improvements to the accuracy of cost and revenue data filed by certain participants, three stakeholders in particular will incur significant fee assessment increases. In the interests of transparency and clarity, an explanation of each case is provided below.

1. Direct Energy Regulated Services (DERS). The administration fee for DERS increases by 47.37%, or \$157,606.00. Holding all other variables constant, the customer and revenue numbers for DERS taken from the most recent standardized reporting under Rule 005 resulted in a 25% increase. The remainder of the net increase is due to changes in staff effort, a portion of the common costs related to NGTL, and the global administration fee decrease.
2. EPCOR Distribution and Transmission Inc. (EPCOR). The administration fee for EPCOR increases by 57.05 %, or \$367,800.00. Holding all other variables constant, the customer and revenue numbers for EPCOR taken from the most recent standardized reporting under Rule 005 resulted in a 43% increase. The remainder of the net increase is due to changes in staff effort, a portion of the common costs related to NGTL, and the global administration fee decrease.
3. ATCO Pipelines (ATCO). The administration fee for ATCO increases by 88.57%, or \$934,650.00 while the category amount decreases 60.26%. ATCO is impacted by the changes in staff effort, a portion of the common costs related to NGTL, and the global administration fee decrease impacting all stakeholders. In addition, in 2008/09 the cost recovery model allocated costs within the gas transmission sector between ATCO and NGTL based on customer numbers and revenue. NGTL's transfer to federal jurisdiction has revealed that by using customer numbers and revenue, NGTL and ATCO were not receiving regulatory services in proportion to the costs paid by them and recovered from their customers. In 2008/09 NGTL paid approximately 80% of the gas transmission sector administration fee based on its customer count and revenue data. Our review of the direct level of effort required for the gas transmission sector revealed that approximately 75% of the effort in this sector was related to ATCO. As a result, with NGTL's departure the masking effect of the customer count and revenue allocation methodology is removed, and the 2009/10 ATCO administration fee results in a much stronger correlation between the effort and costs associated with the provision of regulatory services for ATCO.

For questions or concerns related to this year's administration fee, please contact Tony Rosgen at 403-592-4409 or by email at tony.rosgen@auc.ab.ca.

Yours truly,


Robert D. Heggie
Chief Executive

Attachment

Administration Fee Assessment Amounts Year over Year Comparison

AESO	2008	2009	\$ Change	% Change
Electric Generation	\$ 6,989,803	\$ 7,184,317	\$ 194,514	2.78%
Electric Transmission	\$ 9,619,494	\$ 10,773,266	\$ 1,153,772	11.99%
Totals	\$ 16,609,297	\$ 17,957,583	\$ 1,348,286	8.12%

Gas Transmission	2008	2009	\$ Change	% Change
Nova Gas Transmission	\$ 3,952,443	\$ -	\$ (3,952,443)	-100.00%
ATCO Pipeline	\$ 1,055,241	\$ 1,989,891	\$ 934,650	88.57%
Totals	\$ 5,007,684	\$ 1,989,891	\$ (3,017,793)	-60.26%

Gas Distribution	2008	2009	\$ Change	% Change
ATCO Gas and Pipeline Ltd.	\$ 2,084,734	\$ 2,403,872	\$ 319,138	15.31%
AltaGas Utilities Inc.	\$ 321,760	\$ 264,959	\$ (56,801)	-17.65%
Totals	\$ 2,406,494	\$ 2,668,831	\$ 262,337	10.90%

Gas Retail	2008	2009	\$ Change	% Change
Direct Energy Regulated Services Inc	\$ 1,413,628	\$ 1,517,738	\$ 104,110	7.36%

Electricity Distribution	2008	2009	\$ Change	% Change
ATCO Electric	\$ 1,367,099	\$ 1,385,274	\$ 18,175	1.33%
Fortis Alberta Inc.	\$ 1,203,242	\$ 1,221,604	\$ 18,362	1.53%
EPCOR Distribution Inc	\$ 644,735	\$ 1,012,535	\$ 367,800	57.05%
ENMAX Power Corp	\$ 948,529	\$ 1,016,614	\$ 68,085	7.18%
Totals	\$ 4,163,605	\$ 4,636,026	\$ 472,421	11.35%

Electricity Retail	2008	2009	\$ Change	% Change
Direct Energy Regulated Services Inc	\$ 332,701	\$ 490,307	\$ 157,606	47.37%
EPCOR Energy Alberta Inc. (FAI)	\$ 694,720	\$ 679,415	\$ (15,305)	-2.20%
EPCOR Energy Inc. (EDI)	\$ 575,937	\$ 546,420	\$ (29,517)	-5.13%
Enmax Energy Corp.	\$ 712,934	\$ 771,791	\$ 58,857	8.26%
Totals	\$ 2,316,292	\$ 2,487,932	\$ 171,640	7.41%