ALBERTA ENERGY AND UTILITIES BOARD

DECISION E95106

re:

CANADIAN WESTERN NATURAL GAS
COMPANY LIMITED

In the matter of an application by Canadian Western Natural Gas Company Limited for approval of a 1995/1996 winter period Gas Cost Recovery Rate and a 1996 summer period Gas Cost Recovery Rate.

BEFORE:

N. W. MacDonald Presiding Member
B. T. McManus, Q.C. Member
Gordon J. Miller Member

FILE 5626-22

November 1, 1995
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November 1, 1995
APPEARANCES

For Canadian Western Natural Gas Company Limited : Mr. L. E. Smith
For the City of Calgary : Mr. B. Brander
For the City of Lethbridge : Mr. C. D. MacLennan
For the Public Institutional Consumers of Alberta : Ms. N. J. McKenzie
For the Alberta Irrigation Projects Association : Mr. J. H. Unryn
For the Consumers Coalition of Alberta : Mr. J. A. Wachowich

WITNESSES

For Canadian Western Natural Gas Company Limited : Mr. B. M. Andrews
: Mr. E. Porter
: Mr. J. Pataky
: Mr. A. Huitema
Vice-President and Controller
Senior Vice-President Gas Supply
Senior Manager Gas Supply CU Gas Ltd.
Manager Operational Planning CU Gas Ltd.
1. Introduction

By letter dated September 20, 1995, Canadian Western Natural Gas Company Limited (CWNG, the Applicant) submitted an application (the Application) to the Alberta Energy and Utilities Board (the Board) for approval of each of the following:

1. CWNG's reconciliation of actual gas costs with actual gas cost recoveries for the period November 1, 1994 to March 31, 1995;

2. A Gas Cost Recovery Rate (GCRR) for the 1995/1996 winter period (November 1, 1995 to March 31, 1996) to reflect the forecast unit costs of CWNG's gas supply requirements during this period and the prior year's under recovery of gas costs (the proposed GCRR of $1.308/GJ is $0.534/GJ lower than the 1994/1995 weighted average winter period rate of $1.842/GJ);

3. An update to the forecast of the gas cost and gas cost recoveries for the 1995 summer period (April 1, 1995 to October 31, 1995);

4. A Gas Cost Recovery Rate for the 1996 summer period (April 1, 1996 to October 31, 1996) to reflect the forecast unit costs of CWNG's gas supply requirements during this period and the prior year's under recovery of gas costs (the proposed GCRR of $1.292/GJ is $0.028/GJ lower than the 1995 summer period rate of $1.320/GJ);

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1. INTRODUCTION

5. A revised Rate 42 - Buy/Sell Service for natural gas supplied by Gas Alberta for sale to CWNG for the 1995/1996 winter period, to be effective November 1, 1995, and for the 1996 summer period, to be effective April 1, 1996; and

6. An increase in the Rider "D" percentage from 0.8% to 1.1% for the recovery of Unaccounted for Gas applicable to all transportation service rates for 1996.

In accordance with instructions from the Board, the prescribed Notice of Hearing of the Application was published by September 27, 1995 in each of the daily newspapers having a general circulation in the areas serviced by CWNG and was served on all parties registered for CWNG's most recent GCRR and general rate application (GRA) by September 27, 1995. A public hearing was held in the Board's offices in Edmonton on October 17, 1995. The Board, at the hearing, deemed notice of these proceedings to be adequate.

At the hearing, argument was heard from the Applicant, the City of Calgary (Calgary), the Public Institutional Consumers of Alberta (PICA), the Alberta Irrigation Projects Association (AIPA) and the Consumers Coalition of Alberta (CCA). CWNG's application was heard concurrently with a similar application, dated September 20, 1995, made by Northwestern Utilities Limited (NUL). Any reference to "Companies" refers collectively to NUL and CWNG. Decision E95107, dated November 1, 1995, deals with NUL's application.
2. DEFERRED GAS ACCOUNT (DGA) PROCEDURES

The Application has been filed in accordance with the procedures respecting CWNG's Deferred Gas Account (DGA) and reconciliation of gas supply costs approved in Board Decision E88019, dated March 18, 1988, as amended by Decision E89020, dated April 4, 1989. Customers, under these procedures, are charged the actual cost of gas supplies.

The procedures require CWNG to file, in September of each year, a reconciliation for the preceding winter period respecting actual gas costs, actual gas cost recoveries through the GCRR and the balance in the winter period DGA as at March 31 of the preceding winter period. The September filing also includes a forecast of gas supply costs and a sales volume forecast for the ensuing winter period, and a proposed GCRR to recover the forecast gas supply costs and the deferred DGA balance over the period November 1 to March 31, inclusive.

In Decision E94072 the Board considered that CWNG should file in September 1995 the following information:

(a) 1994/1995 Winter Reconciliation
(b) 1995/1996 Winter Forecast
(c) 1995 Preliminary Summer Reconciliation
(d) 1996 Summer Forecast

The Board considered that the above filings would provide the Board and all parties with the information required to fully test CWNG's proposed procedure.
of amalgamating the two seasonal DGA applications into a single filing in the fall.

Accordingly, CWNG has filed an update to its forecast of the preceding summer period's gas costs, gas cost recoveries through the GCRR and the expected balance in the DGA at the end of the summer season. CWNG's updated forecast includes actual amounts through July 31, 1995. CWNG also submitted a forecast of gas supply costs and a sales volume forecast for the ensuing summer period, and a proposed GCRR to recover the forecast gas supply costs and the deferred DGA balance over the period April 1 to October 31, 1996 inclusive.

The GCRRs for the 1995/1996 winter period and the 1996 summer period are included in CWNG's rate schedules as Rider "F", which is applicable to all sales service rates for the recovery of gas costs.

The GCRR is calculated by adjusting the gas costs forecasts for the upcoming winter/summer period by an amount equal to the balance in the winter/summer DGA and dividing the result by the forecast winter/summer period gas sales volume. That adjustment ensures that the cumulative under/over recovery recorded in the winter/summer DGA would be collected/refunded in the subsequent winter/summer period if the weather was normal and the actual sales were equal to forecast sales.
2. DEFERRED GAS ACCOUNT (DGA) PROCEDURES

In practice, actual cumulative gas costs may occasionally vary considerably from gas cost recoveries, particularly at times when the market price of natural gas is volatile. With the objective of minimizing DGA balances, the Board directed that, should a significant change in gas supply costs occur between the normal application dates in each year, CWNG should apply to the Board for a change in the GCRR in an effort to minimize the balance in the winter/summer DGAs. In Decision E94015, dated March 31, 1994, the Board specified that the tolerance level for the determination of mid-season GCRR adjustments should be "... the greater of ±3% or plus or minus $2 million for CWNG as the guideline for application for GCRR adjustment applications between the normal GCRR application dates of February and September of each year" (Decision E94015, page 15). An application of this nature was made by CWNG for the 1994/1995 winter period.

In Decision E93031, dated April 15, 1993, the Board accepted as filed CWNG's method of calculating Rate 42 for Buy/Sell Service for natural gas supplied by Gas Alberta for sale to CWNG. Rate 42 is calculated as a weighted average of the cost of CWNG's producer and export purchases and CWNG's producer and export purchases as forecast for the appropriate period. The purchase price for Rate 42 is set prior to each winter and summer period and is not adjusted in mid-season. As the purchase price for Rate 42 is not equivalent to the GCRR, it is not necessary to adjust Rate 42 when the GCRR is adjusted in mid-season.
Board Findings

In Decision E94072 dated October 28, 1994, the Board considered that in September 1995 CWNG should file, with its 1994/95 Winter Reconciliation and 1995/96 Winter Forecast, a preliminary 1995 Summer Reconciliation and 1996 Summer Forecast. The Board considered that this would provide the Board and all parties with the information to fully test the proposed combined winter/summer procedure during the September 1995 proceedings. The Board notes that none of the Intervenors expressed any concerns about this procedure. The Board considers that there is merit in combining the forecasts for both periods. The Board notes that the reformatting of the Application, to incorporate the required information and the combined Winter and Summer reconciliations and forecasts, has provided all parties with a better understanding of the annual portfolio, including assumptions supporting the Company's forecasts. The Board also considers that, by combining the winter and summer applications in one proceeding, there is an associated benefit from reduced hearing costs. Therefore, the Board finds that CWNG should continue to file its summer application in September, at the time of its winter GCRR filing.
3. DETAILS OF THE APPLICATION

CWNG has applied for a 1995/1996 winter period GCRR of $1.308/GJ. This represented a decrease of $0.835 from the 1994/1995 winter period rate of $2.143/GJ set in Board Order E94072 and a decrease of $0.028/GJ from the rate of $1.334/GJ set in Board Order E95007 for the period February 1, 1995 to March 31, 1995 (the weighted average rate for the 1994/1995 winter period was $1.842/GJ). This also represented a decrease of $0.012/GJ from the rate of $1.320/GJ set for the immediately preceding summer period (April 1, 1995 to October 31, 1995) in Board Order E95039.


The 1995/1996 proposed winter period GCRR calculation was summarized in Schedule W-D, Section 2B, Page 27 of 38 of the Application as follows (excluding References):
3. DETAILS OF THE APPLICATION

<table>
<thead>
<tr>
<th></th>
<th>Net Gas Cost Forecast</th>
<th>$0,000</th>
<th>77,263</th>
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<tr>
<td>2</td>
<td>Adjusted Cumulative DGA Balance</td>
<td>$0,000</td>
<td>665</td>
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<td>3</td>
<td>Net Gas Supply Expense</td>
<td>$0,000</td>
<td>77,928</td>
</tr>
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<td>4</td>
<td>Excess Sales Revenue</td>
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<td>77,928</td>
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<td>5</td>
<td>Net costs to be recovered</td>
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<td>0</td>
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<tr>
<td>6</td>
<td>Forecast Winter Period Sales</td>
<td>TJ</td>
<td>59,564</td>
</tr>
<tr>
<td>7</td>
<td>Forecast Transportation Imbalance Sales</td>
<td>TJ</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Adjusted Sales (Line 6 + (1.3 x Line 7))</td>
<td>TJ</td>
<td>59,572</td>
</tr>
<tr>
<td>9</td>
<td>Winter Period Gas Cost Recovery Rate</td>
<td>$/GJ</td>
<td>1.308</td>
</tr>
</tbody>
</table>

Since the 1995 summer period was not completed at the time of the Application or the hearing, CWNG was not able to reconcile the 1995 summer period DGA. CWNG has updated the forecast for the 1995 summer period DGA incorporating actual costs incurred to July 31, 1995.

CWNG has applied for a 1996 summer period GCRR of $1.292/GJ. This represented a decrease of $0.028 from the 1995 summer period GCRR of $1.320/GJ set in Board Order E95039. This also represented a decrease of $0.016/GJ from the rate of $1.308/GJ for the immediately preceding winter period (November 1, 1995 to March 31, 1996) as requested in the Application.

The proposed summer period GCRR included a net gas cost forecast for the period April 1, 1996 to November 30, 1996 of $40,939,000, an adjusted cumulative deferred deficit balance from the 1995 summer period of $631,000 and a forecast of excess sales of $276,000. The forecast gas costs for the 1996 summer period, outlined in Schedule S-C, Section 3C, Page 36 of 38 of the
3. DETAILS OF THE APPLICATION

Application, included Purchases, Company Owned Production and Net Storage. The adjusted cumulative DGA balance for the 1995 summer period was outlined in Schedule S-D95U, Section 3B, Page 35 of 38.

The 1996 summer period GCRR calculation was summarized in Schedule S-D, Section 3C, Page 37 of 38 of the Application as follows (excluding References):

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>1</td>
<td>Net Gas Cost Forecast</td>
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<tr>
<td>2</td>
<td>Adjusted Cumulative DGA Balance</td>
<td>$0,000</td>
</tr>
<tr>
<td>3</td>
<td>Net Gas Supply Expense</td>
<td>$0,000</td>
</tr>
<tr>
<td>4</td>
<td>Excess Sales</td>
<td>$0,000</td>
</tr>
<tr>
<td>5</td>
<td>Net Gas Costs To Be Recovered</td>
<td>$0,000</td>
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<tr>
<td>6</td>
<td>Forecast Summer Period Sales</td>
<td>TJ</td>
</tr>
<tr>
<td>7</td>
<td>Forecast Transportation Imbalance Sales</td>
<td>TJ</td>
</tr>
<tr>
<td>8</td>
<td>Adjusted Sales (Line 6 + (1.3 x Line 7))</td>
<td>TJ</td>
</tr>
<tr>
<td>9</td>
<td>GCRR (Line 5 divided by Line 8)</td>
<td>$/GJ</td>
</tr>
</tbody>
</table>

The proposed winter period and summer period Rate 42 price calculations were summarized in Section 2B, Page 28 of 38 and in Section 3C, Page 38 of 38 of the Application as follows (excluding References):

<table>
<thead>
<tr>
<th>Winter Period</th>
<th>Description</th>
<th>Value</th>
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<tr>
<td>1</td>
<td>Canadian Western's Forecast Purchases</td>
<td>TJ</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$,000</td>
</tr>
<tr>
<td>3</td>
<td>Northwestern's Forecast Purchases</td>
<td>TJ</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$,000</td>
</tr>
<tr>
<td>5</td>
<td>Total Purchase Quantity</td>
<td>TJ</td>
</tr>
<tr>
<td>6</td>
<td>Total Purchase Value</td>
<td>$,000</td>
</tr>
<tr>
<td>7</td>
<td>Rate 42 Purchase Price</td>
<td>$/GJ</td>
</tr>
</tbody>
</table>
### Summer Period

<table>
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<tr>
<th></th>
<th>Description</th>
<th>Unit</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canadian Western's Forecast Purchases</td>
<td>TJ</td>
<td>42,588</td>
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<tr>
<td>2</td>
<td></td>
<td>$/000</td>
<td>53,583</td>
</tr>
<tr>
<td>3</td>
<td>Northwestern's Forecast Purchases</td>
<td>TJ</td>
<td>39,775</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>$/000</td>
<td>50,527</td>
</tr>
<tr>
<td>5</td>
<td>Total Purchase Quantity</td>
<td>TJ</td>
<td>82,363</td>
</tr>
<tr>
<td>6</td>
<td>Total Purchase Value</td>
<td>$/000</td>
<td>103,840</td>
</tr>
<tr>
<td>7</td>
<td>Rate 42 Purchase Price</td>
<td>$/GJ</td>
<td>1.261</td>
</tr>
</tbody>
</table>

CWNG has proposed that the Unaccounted For Gas (UFG) percentage for 1996, to be recovered from transportation customers, be increased from 0.8% to 1.1% of transportation service. The UFG rate is based on a three year rolling average calculation of UFG.

In Decision E95039, the Board considered "that CWNG should provide, in its future applications, an explanation of why it is selecting the storage levels it is using or proposing to use, supported by an analysis showing why the selected level of storage is in the best interests of utility customers" (Decision E95039, page 24). Section 1C of the Application provided information on CWNG's use of storage in the context of supply portfolio requirements.
4. DGA RECONCILIATION

1994/1995 Winter Period

CWNG's reconciliation of actual gas costs and actual gas cost recoveries for the 1994/1995 winter period resulted in an under recovery in the winter period of $775,000. An adjustment of $110,000, mainly for gas costs and storage costs, together with legal and interest costs arising from the AEC arbitration awards pursuant to Decision E94015, has also been included in the 1994/1995 winter period reconciliation. Therefore, there is a net under recovery of $665,000 as at March 31, 1995, which is reflected in the 1995/1996 winter period GCRR.

Calgary

Calgary expressed continued support for the gas cost recovery and reconciliation procedure, but stated that although the market has changed, the deferred gas reconciliation process has not. In Calgary's view, the current process is being treated by CWNG as a minimal after-the-fact review of historical gas costs. To illustrate the point, Calgary referred to the fact that CWNG had contracted for supplies under long term indexed contracts for a total of almost $20 million less than under its long term fixed contracts for similar volumes. However, the Company had failed to include any justification for this cost differential in the Application or in responses to Information Requests. Calgary also noted that a price differential between long term indexed proprietary and pool supplies, had cost the Company an extra $2.7 million during the same period. Calgary stated that the onus is on CWNG to provide
sufficient explanation of the reasoning behind its contracting decisions to enable the Board and interested parties to assess the prudence of the contracts. Calgary submitted that the Board should consider directing CWNG to re-apply with inclusion of sufficient information to allow such assessment of the prudence of supply decisions. Calgary further submitted that, at the very least, the Board should give CWNG very clear directions on the level of information and explanations expected in future.

CCA
During its examination of the Companies' panel CCA noted that in January 1995 NUL's 1994/1995 winter period DGA reached a high of $9.363 million. CCA submitted that, with respect to the monthly balances in NUL's 1994/1995 winter period DGA, interest should be applied in accordance with the method accepted by the Board in Decision E95040 when the balances exceeded the prescribed tolerance levels. CCA also submitted that accounting for interest should occur whenever DGA balances exceed tolerance levels.

CCA further suggested that the interest "methodology be adopted to ensure that there is no interest free use of the $2 million at the tolerance level" (Tr. p.172, ll.16-18). In addition, CCA submitted "that it would be appropriate that a target balance of zero be maintained for the deferred gas account month end balances and season end balances as well" (Tr. p.172, ll.23-26).
CWNG

CWNG considered that the balance between disclosure and the public interest has been managed well in previous proceedings and, in this particular Application, has been managed very much in accord with the public interest. CWNG stated that it is unfair to suggest that it had not discharged its burden of proof. CWNG stated that such a suggestion "...ignores the entire process that has brought us to this particular application which cannot be viewed in isolation" (Tr. p.175).

With respect to its long term firm contracts, CWNG stated that, in addition to the information in this proceeding, the matter of CWNG's large contract with a single supplier was extensively discussed in a previous proceeding and was dealt with in Decision E94072. CWNG pointed out that in this Decision, the Board acknowledged that 56% of CWNG's producer purchases were based on a fixed price and that, in the fall of 1993, CWNG expected prices to remain flat or increase slightly over the following two years. CWNG submitted that these fixed price contracts included the large contract with the single supplier, which was entered into for a two year period, and part of the $20 million difference referred to by Calgary is attributable to the costs related to the second year of that contract. With respect to its long term indexed contracts, CWNG submitted that the indices vary over time and the variation is different for each index. Accordingly, it is unfair to conclude that at a particular point in time, an index price was not market-based or prudent, since such conclusions have to be based on how the indices track the market over time.
4. DGA RECONCILIATION

The Companies indicated that DGA balances did not necessarily reflect cash transactions and therefore tolerance guidelines, within which no interest would be applied on excesses or deficiencies, are appropriate. The Companies' understanding of the accepted methodology was that no interest would be payable on a DGA surplus balance unless it exceeded the $2 million tolerance level at the end of a season.

Preliminary 1995 Summer Period

CWNG's reconciliation of an updated forecast of 1995 summer period gas costs and an updated forecast of gas cost recoveries resulted in a forecast October 31, 1995 DGA deficiency balance of $631,000. The updated forecast of gas costs was based on actual gas costs incurred to July 31, 1995, as well as prices for various categories established as described in the Application.

Board Findings

With respect to Calgary's submission that CWNG had failed to provide justification for cost differentials between long term fixed and indexed contracts, the Board notes the submission of CWNG that the matter of the Company's large contract with a single supplier was extensively discussed in a previous proceeding. With regard to the cost differentials between proprietary and pool supplies, the Board notes that indices will vary over time and the variation is different for each index.

The Board notes the Companies' witness stated, in respect of information pertaining to contract pricing and load factor: "With the opening up of the

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core market to direct purchase arrangements, the existing level of disclosure is probably too high" (Tr., p.14, 11.17-19). However, the Board considers that CWNG should continue to provide sufficient information in future GCRR hearings which will allow for a reasonable understanding and breakdown of prices paid for actual gas supplies. The Board further considers that achieving an appropriate level of disclosure should continue to be the goal of an ongoing process between CWNG and the Intervenors.

In Decision E95039 the Board considered that "the methodology adopted by the Board in NUL Decision E95040 respecting interest payable or receivable whenever the excess or deficiency in the DGA account balance is outside of tolerance guidelines should be followed by CWNG in future GCRR applications." (Decision E95039, p.16). The Board considers that, consistent with Decision E95040 calculations, interest will only be applied when the excess or deficiency in the DGA is outside of tolerance. Since the tolerance guidelines apply to the end of season DGA balances, then the interest is also calculated on the end of season DGA balances. Therefore, the Board considers that CWNG has correctly implemented the Board's decision on the application of interest.

The Board notes that, other than those raised by Calgary and addressed above by the Board, none of the Intervenors suggested that there should be any adjustments to the actual gas costs incurred by CWNG for the 1994/1995 winter period or the updated forecast for the 1995 summer period. Based upon this, and upon the examination and evidence of CWNG, the Board considers that CWNG's actual gas costs for the 1994/1995 winter period were
4. DGA RECONCILIATION

reasonable and consistent with market conditions which existed over this period and at the time of entering into pricing agreements with suppliers.

The Board notes that CWNG has updated its forecast of the gas cost and gas cost recoveries for the 1995 summer period and incorporated actual data to the end of July, 1995. The Board accepts CWNG's update of its 1995 summer period DGA for the purpose of incorporating it into the forecast of the 1996 summer period GCRR.
5. FORECAST GAS COSTS

1995/1996 Winter Period

CWNG proposed a 1995/1996 winter period GCRR of $1.308/GJ. The calculation of this rate included the net gas cost forecast for the 1995/1996 winter period, as well as the adjusted cumulative deferred balance from the 1994/1995 winter period (discussed in Section 4 of this Decision).

Calgary

Calgary stated that storage is a major part of CWNG's supply portfolio and is therefore a very significant matter in these proceedings. Calgary considered that, with the storage information provided in this Application, CWNG has only made a start towards compliance with the Board's directives contained in Decision E95039. Those directives required that the Company explain, in future applications, the reasons why it was selecting the storage levels used or proposed, supported by an analysis showing why the selected level is in the best interests of utility customers. Calgary referred to an executive report included in the Application, outlining the Company's gas supply strategy and decisions on storage as an example of where CWNG had fallen short of full compliance. Calgary expressed concern that the report was based on a five-year old study which had not been updated to reflect market changes which have since taken place, such as loss of pre-empt contracts and changes in gas costs.
5. FORECAST GAS COSTS

Calgary stated:

"We would suggest that a study which was looking at storage alternatives based on forecasts of gas costs that were about $2 higher than the present may well need to be revisited." (Tr. p.157)

Calgary also referred to the lack of explanation for changes in levels of base gas and in overall storage levels. In particular, Calgary noted the increases of 50% since 1989 in licensed capacity at Carbon and total mid-winter deliverability. Calgary acknowledged that CWNG, in cross-examination, confirmed that an analysis was done to support the changes which were undertaken for valid reasons and in response to changing conditions. However, CWNG failed to provide any explanation for the changes or why they were in the best interests of customers. Calgary further stated that CWNG did not identify storage operating and carrying costs and that, in response to CR-CWNG.6.3, the Company indicated that such costs are not included in the GCRR. In Calgary’s view, these costs must be an integral part of the decisions on use of storage, and a cost benefit analysis is necessary to determine if the cost of storage is reasonable compared to the cost of seasonal and peaking supplies.

Calgary also noted that CWNG indicated that it proposed to sell next year some Company-owned production in the range of 1.5 PJ, but had not provided any evidence to support its conclusion that this was the least-cost alternative. Calgary submitted that all of these matters
5. FORECAST GAS COSTS

demonstrate that CWNG has failed to supply the storage information required by the Board, and that the Board should repeat its direction to the Company to provide comprehensive evidence of storage utilization and an analysis which shows the benefit to customers.

Lethbridge
Lethbridge also expressed support for the gas cost recovery and reconciliation process but, based on testimony and written submissions, had difficulty in determining whether Lethbridge or the Board could make an informed decision on the Gas Cost Recovery Rate. Lethbridge questioned whether the prudency of CWNG's reliance on storage could be assessed.

PICA
PICA noted the proposal by CWNG, in its core market direct purchase service application, which requires that direct purchase suppliers to the core market supply gas to Carbon. PICA suggested that this additional cost to suppliers would be passed on to customers and that CWNG would be recognizing higher transportation charges from producers than forecast. In order to provide an offsetting benefit to customers, and a better matching of benefits to costs between consumer groups, PICA submitted that any additional transportation revenues should be allocated to the calculation of the GCRR. PICA further submitted that, in the absence of a General Rate Application, any additional transportation revenues would otherwise accrue to the benefit of the shareholders. PICA noted that

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5. FORECAST GAS COSTS

approximately 30%, which is slightly more than 30 PJ of supplies, is represented by one large contract currently in the process of being finalized. Although recognizing that the potential for additional transportation revenues may be small or non-existent, given the potential for by-pass, PICA stated that it was important to establish how the impact of this new delivery contract will be dealt with.

CCA

CCA referred to CWNG's response to AIPA-CWNG.6 regarding storage operations, which stated that:

"Oversupply and soft prices tend to diminish the seasonal difference in gas prices, which in turn tend to reduce the market value of storage, the opportunity cost. The marginal value of storage to the portfolio decreases as storage utilization increases. The benefit of the storage asset is maximized when the marginal value to the portfolio equals the opportunity cost." (Tr. p.173)

CCA expressed concern about the economics of the Company's storage operations in light of CWNG's response.

CCA also agreed with the concerns expressed by PICA with respect to the producer transportation issue. CCA's concern was that residential customers may be required to pay transportation costs through the DGA process, in addition to those costs included in base rates as approved in the last Phase II. CCA submitted that any inclusion of such costs would be unfair, and any such change should only occur in the context of a Phase II General Rate Application.
5. FORECAST GAS COSTS

CWNG

CWNG noted that several intervenors had raised the issue of producer transportation revenues in the context of delivery of supplies to Carbon. CWNG submitted that it was somewhat arbitrary to isolate the relative revenues for credit against the GCRR as proposed by the intervenors. The Company stated that, since the last GRA in 1993, there would be costs which have arisen without corresponding revenues which would have to be considered. Furthermore, CWNG stated, with reference to statements made by the Company in cross-examination:

"...that the prices under these contracts are not impacted by the Carbon delivery point...what we really are reflecting in the prices paid under these contracts is value for value as determined by the market, and the producer transportation revenues do not impact the delivered cost of the gas at the Carbon delivery point." (Tr. pp.184-185)

With respect to possible causal effects on producer transportation costs arising from the Companies' charges for delivery under their core market policies, CWNG submitted that, as a major contract being negotiated has not been finalized and terms of other contracts have yet to be determined, the amount of related incremental producer revenues, if any, to be earned by CWNG likewise cannot be known. CWNG also submitted that, given other costs and other revenue offsets are involved in the process, it is somewhat arbitrary to single out transportation revenues as being an issue for purposes of adjusting the DGA.
5. FORECAST GAS COSTS

In response to concerns raised with respect to the level of storage information, CWNG referred to the information in the Application and to statements made by the Company during cross-examination. CWNG stated that the Application contained the discussion and basic assumptions underpinning the study on storage which supported the Company's conclusions on storage levels. Also, the statements made by the Company during cross-examination explained that storage provides security of supply, operational flexibility for the system, and contractual flexibility resulting in benefits to customers.

1996 Summer Period

CWNG proposed a 1996 summer period GCRR of $1.292/GJ. The calculation of this rate included the net gas cost forecast for the 1996 summer period as well as the forecast sale of excess gas and the adjusted cumulative deferred balance determined in the updated forecast of 1995 summer period gas costs and gas cost recoveries (discussed in Section 4 of this Decision).

AIPA

AIPA referred to the pricing differential of about 2 cents/GJ in CWNG's forecasts of the 1995/96 winter and summer Gas Cost Recovery Rates, and noted that similar differentials for the 1994/95 and 1993/94 gas years, as measured by average industry monthly spot prices, were 22 cents/GJ and 64 cents/GJ respectively. AIPA also referred to the response to CCA-CWNG.10, which allows for a calculation of the average of 6 years' winter/summer differentials from 1989 and noted that the result is a
5. FORECAST GAS COSTS

differential of approximately 24 cents/GJ. AIPA submitted that CWNG's proposal for a 2 cents/GJ differential for the upcoming 1995/96 gas year was not realistic in terms of gas pricing history and that CWNG should reflect at least a 24 cents/GJ differential in its forecast of gas costs between the winter 1995/96 and summer 1996 periods. If such a differential were acceptable to the Board, AIPA submitted that CWNG's forecast base winter price for gas purchases of $1.31/GJ would be appropriate for the 1995/96 GCRR. However, the 1996 summer forecast should reflect the historical winter/summer differential, which would reduce the Company's forecast base price for gas purchases to $1.07/GJ.

With respect to the economics of storage, AIPA submitted that:

"...such economic evaluation must also take into consideration the owning and operating cost of the storage assets. Since this consideration was not provided in this proceeding, the AIPA suggests that the Board direct such an economic evaluation of storage be provided by Canadian Western in its next DGA Gas Cost Recovery Rate proceeding." (Tr. p.171)

CWNG

CWNG disagreed with the submission of AIPA that the Company's 1996 summer gas cost forecast should be reduced by 24 cents/GJ. CWNG submitted that such a proposal presumes that the Company can exert some influence on the market. CWNG stated that, in forecasting prices, it follows the market, which is influenced by the dynamics of price, supply and volume.
5. FORECAST GAS COSTS

Board Findings

The Board notes the submissions of some of the Intervenors that CWNG failed to comply fully with the Board's directives regarding the need for explanations and analyses supporting selected storage levels. The main area of concern was that CWNG's decisions on storage were reflected in the Application on the basis of a five-year old study which had not been updated to reflect market changes which had since taken place. The Board also notes the submissions of Calgary and AIPA that a cost benefit analysis was necessary to enable assessment of whether the cost of storage, including operating and costs of ownership, was reasonable compared to the cost of seasonal and peaking supplies.

The Board, however, generally agrees with CWNG that the Application contains the discussion and basic assumptions supporting the Company's conclusions on storage levels and considers that CWNG has substantially satisfied the Board's direction in Decision E95039 respecting the inclusion of analyses supporting selected storage levels. The Board considers that it would continue to be useful for CWNG to include an analysis of storage usage in future GCRR applications. Therefore, the Board directs CWNG to include in future GCRR applications evidence supporting selected storage levels, including an updated study reflecting prevailing market conditions and a comparison of the unit costs of storage with prevailing storage market values.

With respect to PICA's recommendation regarding gas supplies delivered to Carbon, the Board agrees with CWNG's submission that the forecast gas costs
5. FORECAST GAS COSTS

are determined by the market and may not be materially impacted by delivery to Carbon. The Board considers that any additional producer transportation revenues should not be selected in isolation for offset in the GCRR, since there are potentially other costs and revenues which have arisen since the last GRA in 1993 which would also have to be considered.

The Board notes the proposal of AIPA that CWNG should reflect a differential of at least 24 cents/GJ in its forecast gas costs between winter 1994/95 and summer 1996. The Board considers that the best available forecast should be used for establishing the GCRRs and does not consider it appropriate to rely on the past differential between summer and winter rates as this relationship may not continue over time. Therefore, the Board will not accept the proposal of AIPA for a reduction of 24 cents/GJ in CWNG's forecast base price for summer 1996 gas purchases, since such a reduction would not reflect current market expectations.

In view of the current gas prices and the evidence presented at these proceedings, the Board accepts as reasonable CWNG's forecasts of gas costs for the 1995/1996 winter period and the 1996 summer period as shown in the Application.

With consideration to the reconciliation of gas costs from the previous winter periods, the updated forecast for the previous summer period and the forecast of gas costs for the upcoming winter and summer periods, the Board approves a GCRR of $1.308/GJ to be effective November 1, 1995 for the 1995/1996 winter
period and a GCRR of $1.292/GJ to be effective April 1, 1996 for the 1996 summer period.
6. OTHER MATTERS

The Board notes that CWNG has calculated the UFG percentage in the manner previously approved by the Board. The Board approves the UFG percentage of 1.1% to be applied to transportation customers for 1996 as set out in Schedule "B" attached to this Decision.

CWNG has proposed that the 1995/1996 winter period Rate 42 purchase price calculation and the 1996 summer period Rate 42 purchase price calculation be accepted as indicated in Sections 2B and 3C respectively, of the Application.

The Board notes that the Rate 42 purchase price has been calculated in the manner previously approved by the Board. The Board therefore approves a winter period Rate 42 of $1.368 per GJ to be effective November 1, 1995 and a summer period Rate 42 of $1.261 per GJ to be effective April 1, 1996, as set out in Schedule "C" attached to this Decision.
IT IS HEREBY ORDERED THAT:

(1) Rider "F", as set out in Schedule "A" attached to and forming part of this Decision, is hereby fixed and approved as the Gas Cost Recovery Rates applicable to all sales service rates effective on all metered or estimated consumption on and after November 1, 1995.

(2) Rider "D", as set out in Schedule "B" attached to and forming part of this Decision, is hereby fixed as the rate to be applied to all transportation service rates for the recovery of Unaccounted For Gas to be effective January 1, 1996.

(3) Rate 42, as set out in Schedule "C" attached to and forming part of this Decision, is hereby fixed and approved as the Buy/Sell Service Rate for natural gas supplied by Gas Alberta for sale to CWNG to be effective November 1, 1995.

Dated in Edmonton, Alberta this 1st day of November, 1995.
FOLLOWING ARE

SCHEDULES "A", "B" AND "C"

AND

APPENDICES 1 AND 2

ATTACHED TO AND FORMING PART OF

ALBERTA ENERGY AND UTILITIES BOARD

DECISION E95106

DATED NOVEMBER 1, 1995
CANADIAN WESTERN NATURAL GAS
RIDER “F” TO ALL SALES SERVICE RATES
FOR THE RECOVERY OF GAS COSTS

Effective November 1, 1995

To be applied to the energy sold to all sales service rates unless otherwise specified by specific contract.

The recovery of Gas Costs is subject to reconciliation based on actual experienced Gas Costs as approved by the Alberta Energy and Utilities Board.

Gas Cost Recovery:

- November 1 to March 31: $1.308 per GJ
- April 1 to October 31: $1.292 per GJ
SCHEDULE "B"

Effective by Decision E95106
On Transportation January 1, 1996
This Replaces Rider "D"
Previously Effective January 1, 1995

CANADIAN WESTERN NATURAL GAS
RIDER "D" TO ALL TRANSPORTATION SERVICE RATES
FOR THE RECOVERY OF UNACCOUNTED FOR GAS

All Transportation Service Customers must supply at the Point(s) of Receipt 101.1% of the Gas taken at the Point(s) of Delivery, or in the alternative, must pay to the COMPANY a sum equal to 1.1% of the number of GJ taken at the Point(s) of Delivery multiplied by the applicable Gas Cost Recovery.
CANADIAN WESTERN NATURAL GAS
RATE NO. 42 BUY/SELL SERVICE FOR NATURAL GAS
SUPPLIED BY GAS ALBERTA FOR SALE TO COMPANY
Effective November 1, 1995

Available under a Contract for Gas supplied and sold by GAS ALBERTA (CUSTOMER) to COMPANY provided that:

(i) The CUSTOMER is provided with Gas Sales Service by COMPANY under Rate 6.

(ii) The CUSTOMER has executed a Contract with the COMPANY for Buy/Sell service which is subject to the provisions of this Rate Schedule and incorporates the COMPANY's Buy/Sell Regulations as amended from time to time and approved by the Alberta Energy and Utilities Board.

(iii) The Gas is delivered by CUSTOMER to COMPANY at mutually acceptable Points of Delivery on COMPANY's Gas Pipeline System as set forth in the Contract.

ANNUAL QUANTITY:
The Annual Quantity of Gas to be delivered by CUSTOMER and purchased by COMPANY during the Contract Year shall be the actual consumption by CUSTOMER during the 12 months ended March 31 immediately preceding the Contract Year adjusted for temperature. If such quantity will not be representative of the Contract Year, a mutually acceptable forecast will be used.

MAXIMUM DAILY QUANTITY:
The Maximum Daily Quantity that CUSTOMER shall be obligated to deliver to COMPANY on any day shall equal the Annual Quantity divided by the product of the Load Factor and the number of days in the Contract Year. The Load Factor to be used for calculation of the Maximum Daily Quantity shall be forty percent (40%).

PRICE PAYABLE BY COMPANY:
The price payable for Gas purchased by COMPANY from CUSTOMER shall be:

- November 1, to March 31, $1.368 per GJ
- April 1, to October 31, $1.261 per GJ

FAILURE OF SUPPLY:
In the event of a failure of CUSTOMER's supply pursuant to Clause 3.7 of Article III of the Contract, the applicable charge to CUSTOMER shall be the greater of 30% of Price Payable by COMPANY or COMPANY's incremental cost of replacement Gas.
APPENDIX 1

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

DETERMINATION OF GAS COST RECOVERY RATE

November 1, 1995 to March 31, 1996 *

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Units</th>
<th>Reference</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net gas costs forecast</td>
<td>$000</td>
<td>Exhibit 4, Schedule W-C, Line 18</td>
<td>77,263</td>
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<tr>
<td>2</td>
<td>Adjusted cumulative deferred balance from the 1994/1995 winter period</td>
<td>$000</td>
<td>Exhibit 4, Schedule W-A Column 5, Line 8</td>
<td>(665)</td>
</tr>
<tr>
<td>3</td>
<td>Net gas supply expense</td>
<td>$000</td>
<td>Line 1 minus Line 2</td>
<td>77,928</td>
</tr>
<tr>
<td>4</td>
<td>Excess sales</td>
<td>$000</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Net costs to be recovered by the winter period GCRR</td>
<td>$000</td>
<td>Line 3 minus Line 4</td>
<td>77,928</td>
</tr>
<tr>
<td>6</td>
<td>Forecast 1995/96 winter period sales</td>
<td>TJ</td>
<td></td>
<td>59,564</td>
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<tr>
<td>7</td>
<td>Forecast 1995/96 winter period transportation imbalance sales at 130% of GCRR</td>
<td>TJ</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Calculated 1995/96 winter period GCRR</td>
<td>$/GJ</td>
<td>Line 5 divided by (Line 6 plus 1.3 times Line 7)</td>
<td>1.308</td>
</tr>
</tbody>
</table>

* Numbers may not add due to rounding.

November 1, 1995
## CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

### DETERMINATION OF GAS COST RECOVERY RATE

April 1, 1996 to October 31, 1996 *

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Units</th>
<th>Reference</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net gas costs forecast</td>
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<td>Exhibit 4, Schedule S-D 95U Line 13</td>
<td>(<strong>631</strong>)</td>
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<td></td>
<td>summer period</td>
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<td></td>
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<tr>
<td>3</td>
<td>Net gas supply expense</td>
<td>$000</td>
<td>Line 1 minus Line 2</td>
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<tr>
<td>4</td>
<td>Excess sales</td>
<td>$000</td>
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<td>276</td>
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<td>5</td>
<td>Net costs to be recovered by the summer period GCRR</td>
<td>$000</td>
<td>Line 3 minus Line 4</td>
<td>41,294</td>
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<td>6</td>
<td>Forecast 1996 summer period sales</td>
<td>TJ</td>
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<tr>
<td>7</td>
<td>Forecast 1996 summer period transportation imbalance sales at 130% of GCRR</td>
<td>TJ</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>8</td>
<td>Calculated 1996 summer period GCRR</td>
<td>$/GJ</td>
<td>Line 5 divided by (Line 6 plus 1.3 times Line 7)</td>
<td>1.292</td>
</tr>
</tbody>
</table>

* Numbers may not add due to rounding.

November 1, 1995
# APPENDIX 2

**CANADIAN WESTERN NATURAL GAS COMPANY LIMITED**

**DETERMINATION OF RATE 42 PURCHASE PRICE**

November 1, 1995 to March 31, 1996 *

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Calculation Category</th>
<th>Units</th>
<th>Reference</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canadian Western's Producer</td>
<td>TJ</td>
<td>Canadian Western's Schedule W-C, Line 1</td>
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<td>Purchases</td>
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<td></td>
<td></td>
</tr>
<tr>
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<td>Canadian Western's Producer</td>
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<td>Canadian Western's Schedule W-C, Line 2</td>
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<td>Purchases</td>
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<td></td>
</tr>
<tr>
<td>3</td>
<td>Northwestern's Producer</td>
<td>TJ</td>
<td>Northwestern's Schedule W-C, Line 1</td>
<td>57,582</td>
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<td></td>
<td>Purchases</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Northwestern's Producer</td>
<td>$000</td>
<td>Northwestern's Schedule W-C, Line 2</td>
<td>81,675</td>
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<tr>
<td></td>
<td>Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Total Energy Purchases</td>
<td>TJ</td>
<td>Lines 1+3</td>
<td>105,888</td>
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<tr>
<td>6</td>
<td>Total Dollar Purchases</td>
<td>$000</td>
<td>Lines 2+4</td>
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<tr>
<td>7</td>
<td>Rate 42 Calculation</td>
<td>$/GJ</td>
<td>Line 6 divided by Line 5</td>
<td>1.368</td>
</tr>
</tbody>
</table>

* Numbers may not add due to rounding

November 1, 1995
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

DETERMINATION OF RATE 42 PURCHASE PRICE

April 1, 1996 to October 31, 1996 *

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Calculation Category</th>
<th>Units</th>
<th>Reference</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canadian Western's Producer Purchases</td>
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<td>Canadian Western's Schedule S-C, Line 1</td>
<td>42,588</td>
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<td>Northwestern's Producer Purchases</td>
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<td>Northwestern's Schedule S-C, Line 1</td>
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<td>Northwestern's Producer Purchases</td>
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<td>Total Energy Purchases</td>
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<td>Lines 1+3</td>
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<td>Total Dollar Purchases</td>
<td>$000</td>
<td>Lines 2+4</td>
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</tr>
<tr>
<td>7</td>
<td>Rate 42 Calculation</td>
<td>$/GJ</td>
<td>Line 6 divided by Line 5</td>
<td>1.261</td>
</tr>
</tbody>
</table>

* Numbers may not add due to rounding

November 1, 1995