

September 23, 2004

VIA E-MAIL

Alberta Energy and Utilities Board
640 – 5th Avenue S.W.
Calgary, Alberta T2P 3G4

Attention: R. D. Heggie
Executive Manager, Utilities Branch

Dear Mr. Heggie:

Re: Decision 2003-106 Directive No. 4 Respecting a Comprehensive Benchmarking Study of Charges Under the MS Agreement Between Direct Energy Regulated Services and ATCO I-TEK

Direct Energy Regulated Services (DERS) received approval from the Alberta Energy and Utilities Board (EUB or Board) in Decision 2003-106 for natural gas DRT and electricity RRT rates commencing on the date of DERS' assumption of DRT and RRT service in the ATCO Gas and ATCO Electric Ltd. service territories respectively. At pages 86 and 87 of that Decision, the Board stated:

In sections 3.3.2 and 4.3.2 of this Decision, the Board has approved the use of deferral accounts for RRT and DRT customer care costs. Accordingly, the Board does not consider it necessary to address the forecast volumes used in the determination of customer care costs.

With respect to the service levels established in the MS Agreement, the Board notes that the service levels appear to be higher than the current service levels of ATCO Electric and ATCO Gas. However, the Board also notes that Ms. Gogel and Dr. Chwalowski both agreed that the service levels in the MS Agreement were not out of the range for the utility industry. The Board further notes that Ms. Sharp, on behalf of Calgary, agreed that higher standards of service might be reasonable during the test period if provided cost effectively.

The Board is cognizant of the importance of a smooth transition from ATCO to DERS. The Board therefore considers that the proposed service levels are reasonable for the purposes of this Decision.

With respect to the unit costs of the customer care services set out in the MS Agreement, the Board notes the position of interveners such as the Consumer Group that the base billing charge and the call centre cost per call appear to be higher than fair market value. The Board notes that the base billing charge of \$2.20/customer/month is approximately 14% above the high end of the range identified by Dr. Chwalowski.

However, in the Board's view it is the overall cost to customers, not the cost of individual customer care services, that should be considered when assessing fair market value. In this regard, the Board notes the evidence of Ms. Gogel on behalf of the Calgary that she could not conclude that the

overall costs of the MS Agreement were unreasonable. The Board also notes that DEP, which has every incentive to minimize its costs, will be paying the same charges as DERS under the MS Agreement.

Nonetheless, the Board considers that the evidence with respect to the appropriateness of the ATCO I-Tek charges is inconclusive, and the Board is not fully satisfied that the prices charged by ATCO I-Tek under the MS Agreement represent fair market value.

Therefore, for the purposes of this Decision, the Board will establish a placeholder for customer care costs by reducing DERS's proposed revenue requirement for customer care costs by 10%.

Furthermore, the Board directs DERS to undertake a comprehensive benchmarking study to determine if the charges under the MS Agreement represent fair market value for the services provided and if not, what the fair market value is for the services. Once the Board has completed its review of the benchmarking study, the Board will replace the placeholder for customer care costs based on fair market value.

The Board considers that the benchmarking study should be filed with the Board as soon as practicable in order to minimize the magnitude of any required rate adjustments. The Board notes that ATCO Gas and ATCO Electric are also both subject to outstanding Board directives to benchmark their ATCO I-Tek customer service costs, and the Board urges DERS to consider collaborating with ATCO Gas and ATCO Electric with respect to the benchmarking process in order to increase the efficiency and reduce the costs of the various benchmarking requirements.

A collaborative approach to benchmarking was discussed in February 2004 between ATCO Gas and ATCO Electric Ltd. and DERS. At that time, it became apparent to both parties that there was no benefit, and potentially an increase in cost and time, in attempting a collaborative approach as suggested by the Board. Decision 2003-106 approved the service levels contained within DERS' MS Agreement with ATCO I-TEK,¹ and directed only that DERS undertake a benchmarking exercise to "determine if the charges under the MS Agreement represent fair market value for the services provided and if not, what the fair market value is for the services."² DERS' benchmarking requirements, then, are contained to unit pricing and cost per customer. In discussion with ATCO Gas and ATCO Electric Ltd., it became apparent that their study was to be broader in scope, including an examination of service levels, and was to be developed through a consultative approach including consumer groups. It was the belief of both parties, following these discussions, that DERS could more cost effectively respond to the Board through a benchmarking exercise focused solely on DERS' MS Agreement costs.

DERS retained the firm of Douglas Louth Associates Inc. (DLAI) to perform a customer care cost benchmarking study. A description of the firm, and of its principal Mr. Doug Louth, is contained at the back of the attached benchmarking report described below.

At the outset of this project, a decision was made to benchmark only Canadian utilities. A comprehensive study of customer care costs solely within Canada has not, to DERS'

¹ Decision 2003-106, page 86

² Decision 2003-106, page 87

and DLAI's knowledge, been previously conducted. It is DERS' belief that a study focused on Canadian entities has more relevance than one that focuses on, or includes, U.S. entities. A study focused on Canadian costs will eliminate any disagreement respecting currency conversion and labor cost comparisons as occurred in DERS' DRT/RRT hearing in September 2003. This project was designed to be performed in two phases as generally described in the attached document titled Terms of Reference.pdf. Phase I of the project was to develop the benchmarking work plan and to create the questionnaire, or information collection template. The second phase of the project was to collect and analyze the data from respondent utilities, followed by a detailed analysis of DERS' MS Agreement unit prices and resulting costs per customer against the respondent benchmark data. A copy of the data collection template is attached in the two documents titled Final Questionnaire Intro.pdf and Final Questionnaire Document.pdf.

During the course of the engagement, adjustments and refinements were made to reflect the elapsed time of the project, and to provide a more comprehensive response to the Board's directive. DERS will be providing two separate reports to the Board in response to this directive.

The first report is attached, and is titled Canadian Customer Care Benchmark.pdf. This report provides the results of the data collection and analyses for all study respondents. This is being provided at this time, and in advance of the comparison of DERS' specific information against this data, to provide a contextual background for the subsequent report.

The second report will compare DERS' MS Agreement unit pricing and cost per customer against this benchmark study. This second study will examine in detail DERS' costs in three core areas; those being billing, credit and collections, and call centre operations. These areas make up the majority of MS Agreement costs. This second report will provide an in depth review of the context and make-up of DERS' and benchmark study costs, and will analyze any significant differences. This second report, in conjunction with the attached information, is intended to be fully responsive to the Board's directive respecting the benchmarking of DERS' MS Agreement customer care costs.

DERS intends to file this second report as soon as practical, and in the interim would be pleased to respond to any inquiries respecting the information attached. Should you require additional information I can be reached at 403-290-7745.

Yours truly,



Gary Newcombe
Director, Government & Regulatory Affairs, Western Region
Direct Energy Marketing Limited
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is a business unit of Direct Energy Marketing Limited*