

Schedule-CCA-DERS-1(a)

DIRECT ENERGY REGULATED SERVICES

**APPLICATIONS FOR
ELECTRIC RRT SERVICE and
NATURAL GAS DRT SERVICE**

APPLICATIONS OVERVIEW

- December 9, 2002 Agreement between ATCO and DEML
- ATCO Transfer & Appointment Application filed April 25, 2003
- Direct Energy RS Applications filed May 20, 2003
- Test Years – balance of 2003 and full year 2004
- Energy & non-energy costs
- Fully-allocated cost structure
- Use of deferral accounts ensures no over or under recovery
- No recovery of transaction costs in regulated rates
- Inclusion of appropriate integration costs
- Focus on customer service continuity & seamless transfer

FULLY ALLOCATED COST STRUCTURE

- A Fully Allocated cost structure is appropriate given:
 - RRT Service is no longer temporary under new regulations
 - Retail function is separated from distribution function
 - Retail costs are, or will be, unbundled from distribution costs
 - Retail provider to have reasonable opportunity for cost recovery

DEFERRAL ACCOUNTS

- Energy revenues and costs
- Non-energy revenues
- Certain non-energy costs
 - Customer care
 - Working capital
 - Credit charges
 - Hearing costs
 - Bad debt
 - Penalty revenue
- Deferral for items dependant on energy costs or customer behavior
- Non-deferral for:
 - Amortization of integration costs
 - Operating costs

LOAD & CUSTOMER FORECAST

- Based on ATCO Gas & Electric customer & rate classes
- Extensive use of historical data & current customer behavior
- 2003 & 2004 viewed as transition period
- Future customer behavior uncertain
 - New market structure
 - New retail entrants

ENERGY PRICING

- Flow-through pricing model for Electricity & Natural Gas
 - Continuity with current ATCO Electric & Gas practice
 - Minimizes deferral accounts balances
 - Provides appropriate price signals
- Electricity based on pool price flow through
 - Includes power pool trading fees of \$0.11/mWh
 - Annual reconciliation
- Natural Gas based on index forecasts & deferral account balances
 - Monthly GCFR filings
 - Deferral accounts trended to zero in forecast month
 - Interim maintenance of North & South GCFR & DGA
 - Includes consistent non-energy costs ~ \$0.01/GJ
 - 4.90 allocated FTE's – procurement & portfolio management

NON-ENERGY REVENUE REQUIREMENT ELECTRICITY

- 2004 Electricity Non-Energy Revenue Requirement - \$13.7 million
 - Customer care \$9.53 million
 - Amortization of integration costs* \$0.91 million
 - Working capital \$0.59 million
 - Amortization of hearing costs \$0.35 million
 - Operating costs* \$2.39 million
 - Credit, bad debt, penalty revenue (\$0.06) million
- Working capital carrying costs @ 10%
- 6.82 allocated FTE's
- * Non-deferral items - \$3.3 million

NON-ENERGY REVENUE REQUIREMENT NATURAL GAS

- 2004 Natural Gas Non-Energy Revenue Requirement - \$61.5 million
 - Customer care \$47.69 million
 - Amortization of integration costs* \$2.56 million
 - Working capital \$3.47 million
 - Amortization of hearing costs \$0.35 million
 - Operating costs* \$8.60 million
 - Credit, bad debt, penalty revenue (\$1.16) million
- Working capital carrying costs @ 10%
- 21.84 allocated FTE's
- * Non-deferral items - \$11.16 million

CUSTOMER CARE COSTS

- Outsourced to ATCO I-Tek Business Services Ltd.
- Focus on service continuity and seamless transition
- Full suite of services – broad scope
- High service levels
- Market level unit rates
- Total costs impacted by customer behavior
 - Forecast increases in call volume and duration
- Deferral account treatment
- Elements of self-adjustment as customers switch to retailers
 - Billing, postage, stationery

INTEGRATION COSTS

- Outcome of Government policy
- Required to establish stand-alone retail function
- Would be incurred by any new entrant or incumbent
- Four-part criteria for inclusion:
 - Caused by market restructuring
 - Material
 - Non-controllable
 - Prudent
- Capital costs amortized over 5 years
- Operating costs amortized over test periods

CREDIT CHARGES

- Centrica plc guarantees in addition to & in lieu of Letters of Credit
- Compensation for Centrica plc balance sheet encumbrance
- Annual rate of 0.40%
- Consistent with Centrica plc 2001 Charging for Credit Policy
- Non-energy – Centrica plc guarantee to I-Tek
- Energy – Centrica plc guarantee & LC's to NGX & counterparties

CUSTOMER EDUCATION & ENERGY AWARENESS

- Critical focus during restructuring and transition
- Direct Energy RS must meet customer information expectations
- Assurance, education, awareness & information
- Multiple delivery channels
- Feedback mechanisms and performance monitoring
- Effective consumer education will reduce customer care costs
 - Call volume and duration

PROPOSED TARIFFS

	Effective January 1, 2004	
RRT Rate Class	Customer Charges* \$/month	Variable Charges \$/kWh
Rate E1 Residential Service	6.89	0.00038
Rate E2 Small General Service	6.99	0.00038
Rate E3 Large General Service	5.16	0.00038
Rate E4 Oilfield Service	6.99	0.00038
Rate E5 Farm Service	6.99	0.00038
Rate E6 Lighting Service	5.90	0.00038
Rate E7 Irrigation Pumping Service	6.99	0.00038

	Effective January 1, 2004	
DRT Rate Class	Customer Charges \$/month	Variable Charges \$/GJ
Rate G1 General Service (<8,000 GJ/yr)	6.00	0.018
Rate G3 Large Use Service	6.00	0.018
Rate G5 Irrigation Pumping Service	6.00	0.018