

April 27, 2004

VIA E-MAIL AND COURIER

Alberta Energy and Utilities Board
10th Floor, 10055 – 106 St.
Edmonton, Alberta T5J 2Y2

**Attention: Becky Torrance
Manager, Edmonton Office
Utilities Branch**

Dear Ms. Torrance:

**Re: Direct Energy Regulated Services Gas Cost Flow-through Rate (GCFR) for
May 2004**

The ATCO Group and Direct Energy Marketing Limited have announced, and informed the Board accordingly, that the retail sale transaction has now closed. This will result in Direct Energy Regulated Services (DERS), a business unit of Direct Energy Marketing Limited, assuming the role of default supply provider in the ATCO Gas service territory throughout the month of May 2004.

On that basis, DERS is requesting Board approval for North and South Gas Cost Flow-through Rates (GCFRs) of \$5.543 per GJ and \$5.381 per GJ respectively for the month of May 2004. These requested GCFRs are equal to the Gas Cost Recovery Rates (GCRRs) derived by ATCO Gas for the month of May. The assumption of these rates by DERS will assist in providing customers with a smooth transition from ATCO Gas to DERS and will not require an additional rate change related to gas costs over and above that regularly scheduled for month-end. DERS' GCFR Rate Schedules, Riders "F", for the month of May 2004 for the North and South systems are attached.

During the month of May customers will receive their final ATCO Gas bill and, as of the date of that final ATCO Gas billing, will become customers of DERS on a cycle-by-cycle basis. DERS requires approved GCFRs for the month of May for the gas consumed by customers as those customers transition through the billing cycle and become customers of DERS. The cycle-by-cycle transition mechanism was provided for and fully described in the Gas Assets Transfer Agreement Schedule 4.8 – "Customer Transition" contained in Appendix 2 to Exhibit 002-01 in Application 1299855 ATCO Gas and ATCO Electric Application to Transfer Certain Retail Assets to Direct Energy Marketing Limited. The transition mechanism was developed in order to provide a smoother transition from ATCO Gas to DERS than would be the case with a single date transition. A single date transition would require an off-cycle final bill from ATCO Gas for all customers on the transition date. ATCO Gas customers would have a truncated billing period for that final bill, as would DERS customers for their initial DERS bill.

Many of these truncated billing periods would require prorated fixed charges, for both the final ATCO Gas and initial DERS bills. In addition, customers would receive an extra bill, the ATCO Gas final, with a non-standard due date.

Given the timing of the transaction closing, ATCO Gas has already made all base load purchases for the month of May. DERS and ATCO Gas are of the view that it is appropriate for ATCO Gas to make all gas purchases for the month of May. This includes purchasing May base load and daily requirements for customers up to the date of their final ATCO Gas bill, as well as purchasing the May base load and daily requirements for those customers subsequent to that final ATCO Gas billing when those customers have become DERS customers. In addition, ATCO Gas will make all other purchases, such as fuel and system balancing requirements, for the month of May.

DERS will purchase the supply requirements for its customers, as well as its share of fuel, system balancing, and all other requirements, from ATCO Gas during May at ATCO Gas' GCRR rates for the North and South systems respectively. Certain items contained in ATCO Gas' GCRRs, and DERS' GCFRs, such as penalty revenue, gas-supply related bad debts, DGA carrying costs, and credit charges will ultimately be subject to reconciliation, as will the cost of the gas purchases themselves.

DERS will be making an application to the Board for GCFRs for the month of June, 2004 on May 25 as per the current process schedule.

DERS requests the Board's indulgence in this matter, given the timing inherent in this approval request, and thanks the Board for their early attention in this matter. Should you require additional information I can be reached at 403-290-7745.

Yours truly,



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

cc: ATCO Gas GCRR Distribution List

Approved by Decision 2003-106
Effective May 1, 2004
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**DIRECT ENERGY REGULATED SERVICES
Rider "F" GAS COST FLOW-THROUGH
ATCO GAS NORTH SERVICE TERRITORY**

To be applied to all energy sold to customers served under Rates G1 and G3.

Gas Cost Flow-through Rate:

For customers served by ATCO Gas and Pipelines North:

For the Period May 1, 2004 to May 31, 2004

\$5.543 per GJ

Approved by Decision 2003-106
Effective May 1, 2004
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**DIRECT ENERGY REGULATED SERVICES
Rider "F" GAS COST FLOW-THROUGH
ATCO GAS SOUTH SERVICE TERRITORY**

To be applied to all energy sold to customers served under Rates G1, G3 and G5.

Gas Cost Flow-through Rate:

For customers served by ATCO Gas and Pipelines South:

For the Period May 1, 2004 to May 31, 2004

\$5.381 per GJ