

September 24, 2004

## **Direct Energy Regulated Services Files Proposed October Rates**

Direct Energy Regulated Services, a business unit of Direct Energy Marketing Limited (DERS) has filed with the Alberta Energy and Utilities Board (EUB) proposed Gas Cost Flow-through Rates (GCFRs) for October 2004.

The proposed GCFR for customers in the ATCO Gas South service territory is \$5.193 per gigajoule (GJ). The proposed GCFR for customers in the ATCO Gas North service territory is \$5.106 per gigajoule (GJ). A typical residential customer consumes approximately 9 GJ in the month of October.

The GCFR is adjusted monthly utilizing the mechanical process implemented in April 2002 by the EUB for use by all regulated natural gas retailers in Alberta. The GCFR reflects the purchase of forecast October volumes, based on normal weather, at public and widely reported October natural gas price forecasts. In addition, the GCFR accounts for any over or under recoveries of actual gas costs arising from differences in:

- normal and actual weather, and
- forecast and actual prices occurring in September and prior months.

The South October GCFR reflects a forecast price for October supplies of approximately \$5.50 per GJ, and incorporates a credit adjustment of (\$0.31) per GJ for September and prior months.

The North September GCFR reflects a forecast price for October supplies of approximately \$5.50 per GJ, and incorporates a credit adjustment of (\$0.40) per GJ for September and prior months.

DERS is regulated by the EUB, and therefore passes through to its customers only the actual incurred cost of natural gas supplies purchased on behalf of those customers.

If approved as filed, the new GCFRs will take effect October 1, 2004.

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## **How is the Gas Cost Flow-through Rate (GCFR) determined?**

The GCFR is determined in accordance with the mechanical process approved in April 2002 by the EUB for use by all regulated natural gas retailers in Alberta, and is not a product of subjective judgment or market speculation by DERS. DERS is following the same methodology previously used by ATCO Gas to set its monthly gas cost recovery rates.

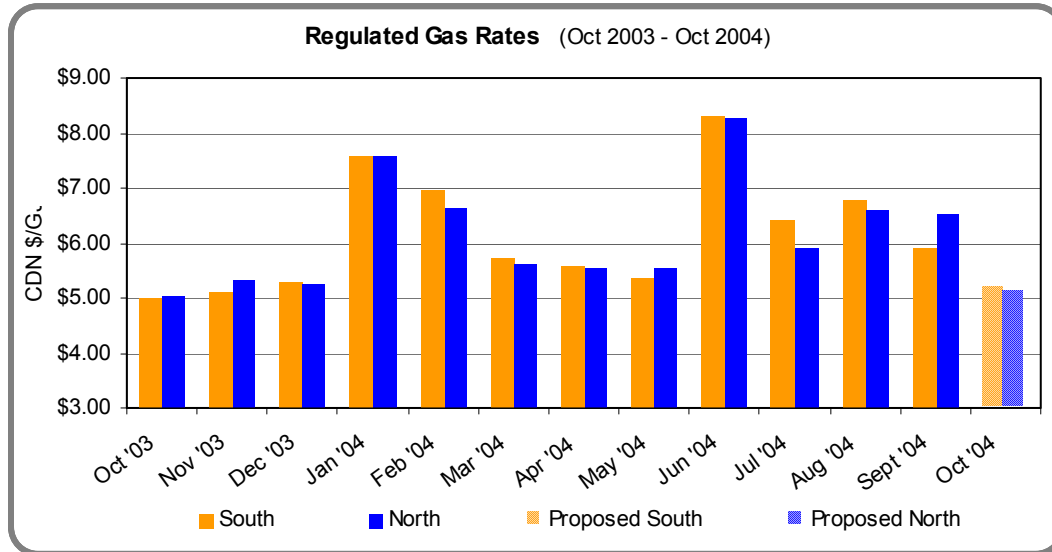
DERS' determination of the GCFR involves a six-step process.

1. Volumes for the forecast month are determined on the basis of normal temperatures. Normal temperatures for each day of the forecast month are the average of the last 20 years' temperatures for that day as determined by Environment Canada data. Natural gas consumption for residential and commercial customers in Alberta is highly dependant on weather.
2. On the 5<sup>th</sup> last working day of the month prior to the forecast month, referred to as the current month, DERS extracts the current market view of natural gas prices for the forecast month from the Natural Gas Exchange, or NGX. NGX prices represent the most public and widely accepted market view of natural gas prices, and form the basis for the AECO Monthly Index and Daily Index prices used to settle the vast majority of natural gas transactions in Alberta.
3. The cost of the forecast month natural gas requirements are then determined by multiplying the forecast volumes determined in Step 1 by the forecast month pricing obtained in Step 2.
4. EUB regulation requires that customers pay only the actual costs of natural gas supply, nothing more, and nothing less. Because DERS uses both forecast volumes and prices in determining its gas costs for the month the rates are being set for, a mechanism has been established to capture the differences between these forecasts and actuals. These differences result in DERS paying its suppliers more or less than is recovered from customers through the GCFR, and this difference is accumulated in a Deferral Account. The Deferral Account transactions and balances are reviewed by the EUB and consumer groups.
5. The current month cumulative balance of this Deferral Account identified in Step 4 is added to the cost of the forecast month natural gas requirements determined in Step 3 to arrive at the forecast month aggregate natural gas supply cost.
6. This aggregate natural gas supply cost is then divided by the forecast month volume forecast determined in Step 1. The result is the forecast month GCFR filed by DERS on the 5<sup>th</sup> last business day of the current month. This process is repeated on a monthly basis, and is followed by all regulated natural gas retailers in Alberta.

## Why do natural gas prices fluctuate?

Natural gas prices are set in an open and competitive market, and are influenced by many variables throughout North America and the world. These variables include supply and demand, production and exploration levels, storage injections and withdrawals, global weather patterns, pricing and availability of competing energy sources, and market analysts' views of future trends in any of these or other variables. Natural gas prices in Alberta are not typically a function of localized weather patterns.

The graph below shows the historical regulated gas rates.



## How does this rate compare to last month?

For customers in the ATCO Gas South service territory, the GCFR is decreasing from \$5.927 per GJ to \$5.193 per GJ.

For customers in the ATCO Gas North service territory, the GCFR is decreasing from \$6.527 per GJ to \$5.106 per GJ.

## Why are North and South GCFRs different?

DERS is required by the EUB to purchase natural gas for ATCO Gas' North and South systems separately. Each system has slightly different load, weather, and supply characteristics that result in a different mix of Monthly and Daily Index purchases.

## How much natural gas does a typical residential customer use?

Natural gas consumption for a typical residential customer - GJ

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
23	18	16	9	5	3	3	4	5	9	18	22	135

## What will a typical residential bill be for October 2004?

A typical residential gas bill for October, based on 9 GJ of consumption, will be approximately \$87 in the North and \$90 in the South.

For more information, please view the October 2004 GCFR Applications on DERS' website at [www.directenergyregulatedservices.com](http://www.directenergyregulatedservices.com)