

July 26, 2006

## **Direct Energy Regulated Services Files August Rates**

Direct Energy Regulated Services (DERS), a business unit of Direct Energy Marketing Limited, has filed with the Alberta Energy and Utilities Board (EUB) proposed Gas Cost Flow-through Rates (GCFRs) for August 2006.

The proposed GCFR for customers in the ATCO Gas South service territory is \$5.304 per gigajoule (GJ), and the proposed GCFR for customers in the ATCO Gas North service territory is \$4.154 per gigajoule (GJ). A typical residential customer consumes approximately 4 GJ in the month of August.

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. Largely based on market wholesale natural gas prices, the GCFR reflects the purchase of forecast August volumes, based on normal weather, at public and widely reported August 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 July and prior months.

The North August GCFR reflects a forecast price for August supplies of approximately \$5.34 per GJ, and incorporates a credit adjustment of (\$1.19) per GJ for July and prior months.

The South August GCFR reflects a forecast price for July supplies of approximately \$5.34 per GJ, and incorporates a credit adjustment of (\$0.04) per GJ for July 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.

Regulated gas supply, with fluctuating prices from month to month based on short-term wholesale market conditions, is just one option available to natural gas consumers in Alberta. Consumers can choose to contract with a competitive retailer for their supply of natural gas by selecting one of the various natural gas plans provided by retailers to address the specific needs of individual consumers. Information on natural gas supply options and a complete list of the competitive retailers licensed to operate in Alberta can be found on the Alberta government's customer choice website at: [www.ucahelps.gov.ab.ca](http://www.ucahelps.gov.ab.ca).

The Natural Gas Price Protection Regulation only applies during the October to March period therefore no provincial rebate will be applied from April to September.

If approved as filed, the new GCFRs will take effect August 1, 2006. The typical residential gas bill for August, based on an average 4 GJ of consumption would be approximately \$49 in the North and \$48 in the South.

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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.

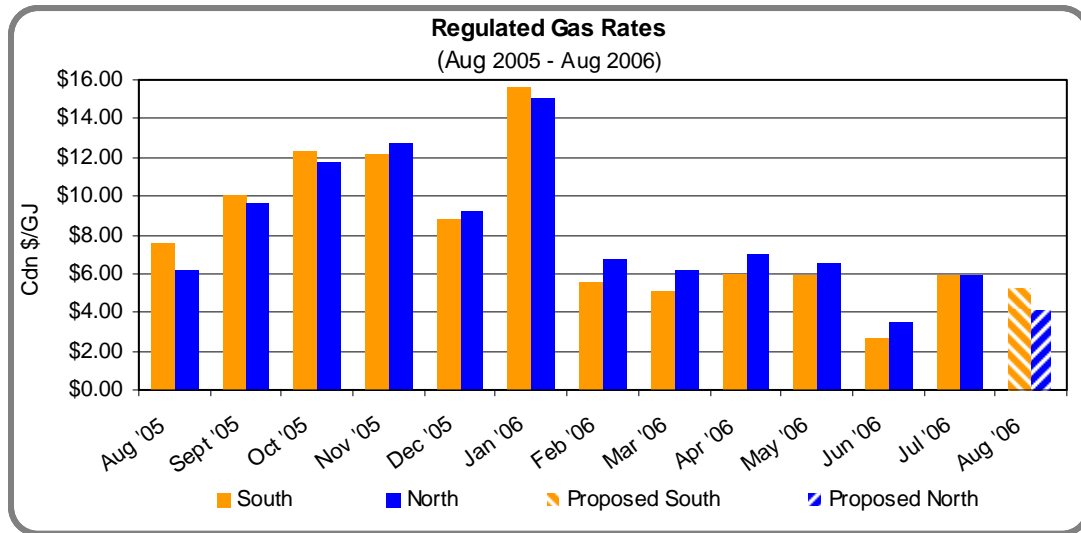
DERS' determination of the GCFR involves a six-step process.

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, continental 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.

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 \$5.882 per GJ to \$5.304 per GJ. This month's GCFR includes a credit adjustment of (\$0.04) where as last month's GCFR included a debit adjustment of \$0.15.

For customers in the ATCO Gas North service territory, the GCFR is increasing from \$5.894 per GJ to \$4.154 per GJ. This month's GCFR includes a credit adjustment of (\$1.19) where as last month's GCFR included a debit adjustment of \$0.16.

## How does this month's market forecast price compare to last month?

This month's market forecast price is \$5.34 per GJ.

Last month's market forecast price was \$5.73 per GJ.

Last month's actual market price was approximately \$5.45 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 August 2006?

A typical August residential gas bill, based on 4 GJ of consumption will be approximately \$49 in the North and \$48 in the South.

This compares to a typical bill for August 2005 of \$57 in the North and \$60 in the South. Typical bills for July 2006, based on 3 GJ of consumption, were \$52 in the North and \$45 in the South.

## When do natural gas rebates apply?

The rebate may be triggered during the months of October through March when the rates for two of the three major regulated gas providers in Alberta exceed the \$5.50/GJ threshold. For additional information on the Natural Gas Rebate Program visit the Government of Alberta website at [www.gov.ab.ca](http://www.gov.ab.ca)

For more information, please view the July 2006 GCFR Applications on DERS' website at [www.directenergyregulatedservices.com](http://www.directenergyregulatedservices.com)