

Frequently Asked Questions

Our customers are interested in knowing about the rates they are being charged by ATCO Gas. Following you will find information about the topics that currently hold the greatest interest.

How does ATCO Gas set it's gas rate?

How does ATCO Gas make its money?

What is hedging?

Why doesn't ATCO Gas hedge?

Isn't Hedging Better?

How does ATCO Gas set it's gas rate?

There are specific time periods used to determine the gas rate, depending on the type of customer (see below).

ATCO Gas arbitrarily selects a day, close to the start of the period, when the forward market price for natural gas will be used to determine what ATCO Gas will have to pay for natural gas for its customers to the end of the period.

Throughout each period, utilities constantly monitor the amount collected from customers and the amount paid to suppliers. In times of extreme price volatility, the gas rate initially set at the beginning of the period can be either too high or too low. If ATCO Gas believes it will be out of balance by the greater of + / - \$2,000,000 or + / - 3% of the initial forecast of gas costs for the period, it is required to file a rate adjustment with the Alberta Energy and Utilities Board (AEUB).

For residential and small commercial customers

The gas cost rate for these customers is determined by the forecast of market prices for the coming 12 months. ATCO Gas was given approval for an annual gas rate for this group of customers in January 2001. An annual rate evens out the highs and lows of the market, protecting our customers from volatile prices.

For large commercial, industrial and agricultural customers

There are two distinct gas cost rate periods. The winter period runs from November 1 to March 31. The summer period runs from April 1 to October 31.

How does ATCO Gas make its money?

Through our service charges, specifically our delivery charges – both fixed and variable.

ATCO Gas installs, operates and maintains pipelines across Alberta. As part of this service agreement, ATCO Gas provides 24-hour response to natural gas emergencies. We also respond to requests to check natural gas furnace and gas appliances for safe and efficient operation. ATCO Gas bills its customers for all services through its delivery charges. To be fair to its customers, ATCO Gas has developed a two-part rate: a fixed charge and a variable charge.

The fixed charge is a monthly flat amount that recovers a portion of the delivery charges. It is intended to recover expenses for services that are related to the number of customers – not how much gas is consumed. For example, the cost to provide a bill does not change if a customer uses 100 GJ or 200 GJ of natural gas. The fixed charge, however, is not sufficient to recover the full cost of providing all

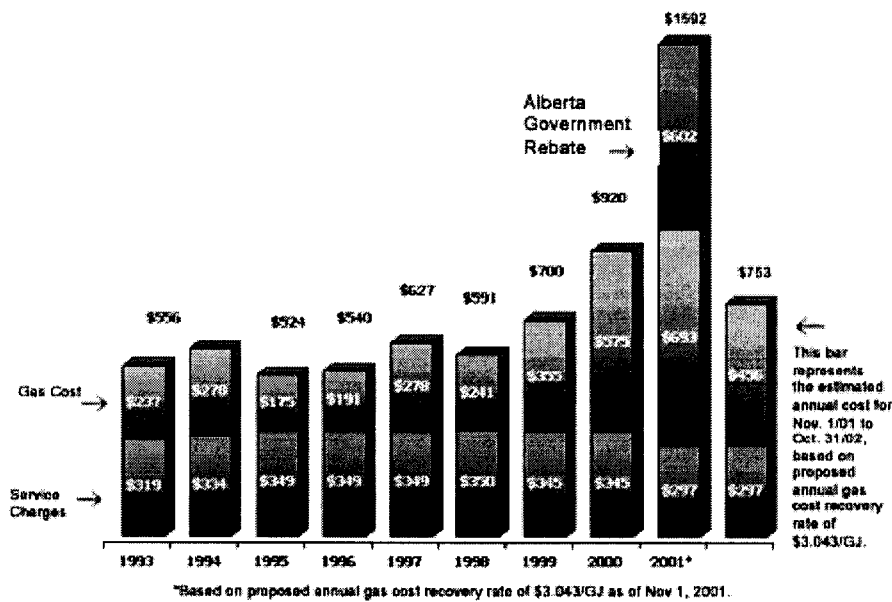
customer services.

The remainder of the total delivery charges is recovered through the variable charge. Customers pay the variable charge based on a rate per gigajoule of natural gas consumed that month. The more natural gas consumed, the larger the total variable charge paid by the customer.

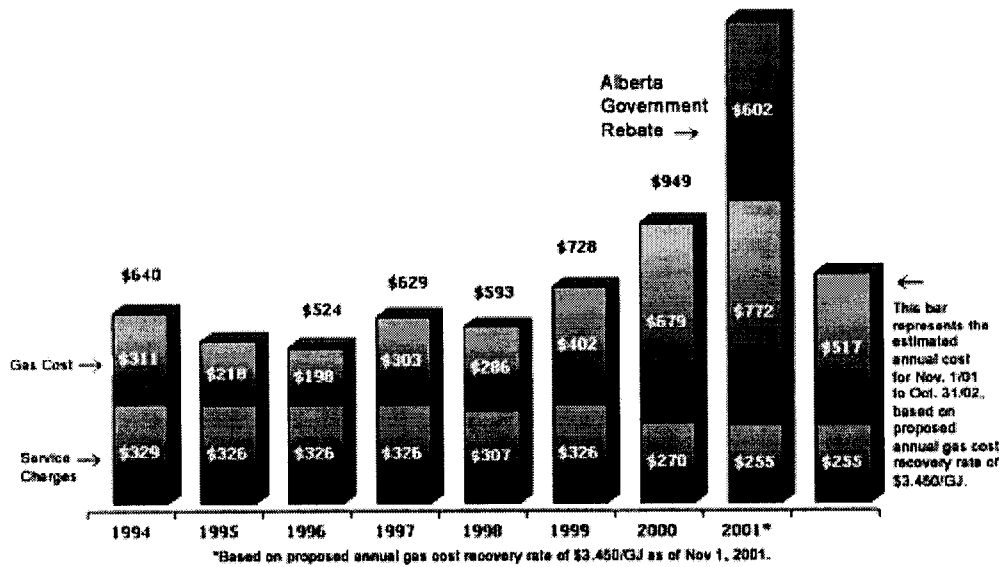
History of Costs

The typical ATCO Gas residential customer uses 150 GJ of natural gas in one year. Approximately 100 GJ of natural gas are consumed during the five-month period of November 1 to March 31. Shown are averaged North and South rates.

Comparison of Annual Costs for Residential Customers - North



Comparison of Annual Costs for Residential Customers - South



Delivery Costs

Our delivery charges are lower than 7 years ago. Our typical residential customer will pay us an average of \$298 for service this year. In 1994, they paid an average of \$332. In 2001, here is what a typical residential customer can expect to pay its utility company for service:

- ATCO Gas \$298
- Sask Energy \$411
- BC Gas \$472
- Centra Manitoba \$419
- Gazifere \$789
- Union Gas North \$542
- Union Gas South \$435
- Enbridge Consumers \$716

What is "hedging"?

Simply, hedging is locking in the price at which you agree to buy natural gas in the future.

Typically, a utility will use fixed price contracts to hedge. When market prices are high, hedging always looks like the best approach. But, there is a cost and customers pay it. The utility knows when the market price drops, it won't be able to reduce the rate charged to its customers. So, the utility that chooses fixed price contracts hopes the market price stays higher than the price the utility has committed to paying suppliers. Otherwise, customers are angry because their rate is higher than the market price.

Why doesn't ATCO Gas hedge?

Our objective, and the direction of our customer representatives, is to provide natural gas at the least possible cost to customers.

That's why our portfolio is predominantly daily and monthly AECO-indexed gas bought under firm contracts. Our experience has been that this strategy does result

in least cost gas for our customers because we are able to quickly react when gas prices drop. We did this most recently a year ago, when the market price dropped and stayed down despite months of reports about higher market prices yet to come. Customers enjoyed a gas rate reduction in February 2000 because market prices were lower than the rate we had set at the start of the winter period.

Isn't hedging better?

No. One utility's objective for rate setting is not superior to another's rate setting process. Market prices for natural gas prices are volatile and forward market prices change daily so the best any utility can do is establish its objective based on what its customers have said they want.