



AltaGas Utilities Inc.

**Compliance Filing Pursuant to Decision 2014-373 (2014-2015
Capital Tracker Forecast and 2013 Capital Tracker True-up)**

June 25, 2015

Alberta Utilities Commission

Decision 20176-D01-2015: AltaGas Utilities Inc.

Compliance Filing Pursuant to Decision 2014-373 (2014-2015 Capital Tracker Forecast and
2013 Capital Tracker True-up)

Proceeding 20176

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Contents

1 Introduction..... 1

2 Background 3

3 Compliance with Commission directions..... 4

3.1 2015 I factor and Q factor used in the accounting test..... 4

3.2 Weighted average cost of capital rate 4

3.3 Projects not originally forecast for 2013..... 5

3.4 Income tax temporary differences..... 6

3.5 Materiality thresholds..... 7

4 K factors..... 7

5 Order 10

Appendix 1 – Proceeding participants 11

Appendix 2 – Summary of Commission directions..... 12

List of tables

Table 1. 2013, 2014 and 2015 embedded debt rates (per cent)..... 5

Table 2. Rate base removals for projects denied for capital tracker treatment 6

Table 3. 2013, 2014 and 2015 K factors 8

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1 Introduction

1. On December 24, 2014, the Alberta Utilities Commission issued Decision [2014-373](#),¹ dealing with AltaGas Utilities Inc.'s (AltaGas or AU) 2013 capital tracker true-up application and 2014-2015 capital tracker forecast application. The decision included a direction for AltaGas to file a compliance filing application in accordance with the directions contained in the decision within 10 business days of the release of the Commission's decision in Proceeding 3434.
2. Decision [3434-D01-2015](#),² relating to Proceeding 3434, was released on February 5, 2015, and AltaGas filed the compliance application to Decision 2014-373 on February 20, 2015. The application addressed Commission directions from both Decision 2014-373 and Decision 3434-D01-2015.
3. On February 23, 2015, the Commission issued a notice of application that required interested parties to submit a statement of intent to participate (SIP) by March 5, 2015. The Commission received a SIP from the Consumers' Coalition of Alberta (CCA) by the specified deadline, requesting the opportunity to test the application with a process of information requests, argument and reply before commenting on whether it objects or does not object to the application.
4. On March 9, 2015, the Commission issued a process letter and determined that the application would be conducted by way of a *minimal written process* proceeding, as outlined in Commission Bulletin [2015-09](#).³ In the letter, the Commission included the following procedural schedule:

Process step	Deadline
Information requests to AltaGas	March 20, 2015
Responses to information requests by AltaGas	April 1, 2015
Argument	April 14, 2015
Reply argument	April 21, 2015

¹ Decision 2014-373: AltaGas Utilities Inc., 2014-2015 Capital Tracker Application and 2013 Capital Tracker True-up Application, Proceedings 3152 and 3244, Applications 1610446-1 and 1610600-1, December 24, 2014.

² Decision 3434-D01-2015: Distribution Performance-Based Regulation Commission-Initiated Review of Assumptions Used in the Accounting Test for Capital Trackers, Proceeding 3434, Application 1610877-1, February 5, 2015.

³ Bulletin 2015-09, Performance Standards for Processing Rate-Related Applications, March 26, 2015.

5. On March 23, 2015, Decision [2191-D01-2015](#),⁴ 2013 Generic Cost of Capital, was released. By letter dated March 25, 2015, the Commission issued a letter requesting AltaGas to revise its compliance application to reflect the updated return on equity (ROE) and equity ratio, stating:

In order to avoid future true-up adjustments in respect of approved AltaGas capital tracker actual and forecast amounts, the Commission has determined that the most efficient way to incorporate the new ROE and equity ratio is by way of an application update. AltaGas is directed to update its application to reflect the final approved ROE and equity ratio values from Decision 2191-D01-2015.⁵

6. The Commission also directed AltaGas to correct for the error in its 2013, 2014 and 2015 embedded debt rate that AltaGas had identified in its February 20, 2015 application.⁶

7. The following updated process schedule was included in the Commission's March 25, 2015 letter:

Process step	Deadline
AltaGas application update	April 9, 2015
Information requests to AltaGas	April 16, 2015
Responses to information requests by AltaGas	April 23, 2015
Argument	April 30, 2015
Reply argument	May 7, 2015

8. AltaGas submitted the updated application on April 9, 2015. The CCA issued information requests to AltaGas on April 16, 2015, and AltaGas provided responses on April 23, 2015.

9. On April 29, 2015, AltaGas filed a letter⁷ with the Commission addressing what it understood to be the CCA's remaining concerns in this proceeding. AltaGas concluded that further process in the form of argument or reply should no longer be required, and that the removal of the additional steps would not result in prejudice to any party and would assist in regulatory efficiency. AltaGas requested that the record in this proceeding be closed, pending issuance of a decision.

10. By letter dated April 30, 2015,⁸ the CCA confirmed that its outstanding concerns were resolved through AltaGas' responses to the information requests, discussions with AltaGas and AltaGas' April 29, 2015 letter.

⁴ Decision 2191-D01-2015: 2013 Generic Cost of Capital, Proceeding 2191, Application 1608918-1, March 23, 2015.

⁵ Exhibit 20176-X0010, Commission letter, paragraph 7.

⁶ AltaGas used 4.14 per cent for the 2012 debt rate in its embedded debt calculations. The correct number is 4.13 per cent.

⁷ Exhibit 20176-X0019.

⁸ Exhibit 20176-X0020.

11. By letter dated May 1, 2015, the Commission issued a letter responding to AltaGas' request to close the proceeding record. The letter included the following direction:

Based on the submissions of AltaGas and the CCA, the Commission finds that there is no need to keep the record of this proceeding open and, accordingly, considers the record to have closed effective the date of this letter, May 1, 2015. The remainder of this proceeding will be considered by way of a *basic written process* ...⁹

12. In reaching the determinations set out in this decision, the Commission has considered all relevant materials comprising the record of this proceeding, as well as related performance-based regulation (PBR) and capital tracker decisions. References in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to this matter.

2 Background

13. On September 12, 2012, the Commission issued Decision [2012-237](#),¹⁰ approving PBR plans for the distribution utility services of AltaGas, ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc., and FortisAlberta Inc., collectively referred to as "the companies." On December 6, 2013, the Commission issued Decision [2013-435](#),¹¹ which addressed the companies' 2013 PBR capital tracker applications.

14. As noted above, the Commission released Decision 3434-D01-2015 on February 5, 2015, and Decision 2191-D01-2105 on March 23, 2015.

15. Proceeding 3434 was a generic proceeding initiated to achieve consistency, where possible, in the methods and assumptions used in performing the accounting test requirement for capital tracker forecast applications and capital tracker true-up applications, as set out in Decision 2013-435. AltaGas and the other companies subject to PBR had been using a variety of methods and assumptions in performing the accounting test required under the first criterion for capital tracker treatment. The Commission limited the scope of the proceeding to examining the possible use of a consistent set of assumptions with respect to the values comprising the companies' respective weighted average cost of capital (WACC) rate; specifically, debt rates, ROE rates, and capital structure, both on a forecast and actual basis.

16. Decision 3434-D01-2015, related to Proceeding 3434, directed the companies to incorporate the findings of the decision in their compliance filings for their 2013 capital tracker true-up and 2014-2015 capital tracker forecast applications, and in all future capital tracker applications.

⁹ Exhibit 20176-X0021, paragraph 11.

¹⁰ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012.

¹¹ Decision 2013-435: Distribution Performance-Based Regulation, 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

17. Decision 2191-D01-2015 revised the companies' ROE from 8.75 per cent to 8.3 per cent and assigned an equity thickness for each company based on its particular relevant factors. AltaGas' equity thickness changed from 43 per cent to 42 per cent. The new ROE and equity thickness applies to 2013, 2014 and 2015 on a final basis.

3 Compliance with Commission directions

3.1 2015 I factor and Q factor used in the accounting test

18. In the 2014-2015 capital tracker forecast application, AltaGas used estimates for the 2015 I factor and Q factor because the 2015 annual PBR rate adjustment proceeding was in progress and Decision 2014-357¹² with the approved values had not been released.

19. Subsequently, at paragraphs 20 and 86 of Decision 2014-357, the Commission approved a 2.65 per cent 2015 I factor as well as the billing determinants and resulting Q factor that AltaGas proposed during the proceeding. Paragraphs 325 and 365 of Decision 2014-373 directed AltaGas to use the 2015 I and Q factors approved in Decision 2014-357 in its capital tracker compliance filing.

20. In the application, AltaGas submitted that it had reflected the approved 2015 I factor and Q factor in the supporting schedules to the application.

Commission findings

21. The Commission has reviewed the calculations in the supporting schedules to the application and is satisfied that the approved I factor and Q factor have been correctly reflected in the accounting test. The Commission finds that AltaGas has complied with the Commission's directions in paragraphs 325 and 365 of Decision 2014-373.

3.2 Weighted average cost of capital rate

22. As set out in Section 4.4 of Decision 2013-435, the accounting test, as it relates to revenue calculations, consists of two components. The first component is the revenue provided under the I-X mechanism for a project or program proposed for capital tracker treatment. The second component is the revenue requirement calculations based on the forecast or actual capital additions for that project or program for a given PBR year.

23. In the 2013 capital tracker true-up application and 2014-2015 capital tracker forecast application (proceedings 3152 and 3244), AltaGas used approved going-in WACC rates for the first component of the accounting test for the 2013 capital tracker true-up and the 2014-2015 capital tracker forecast. For the second component of the accounting test, in its 2013 capital tracker true-up, AltaGas used the 2013 actual debt rate and the ROE and capital structure from its going-in rates. For the 2014-2015 capital tracker forecasts, AltaGas used forecast debt rates and the ROE and capital structure from its going-in rates. For the purposes of Decision 2014-373, the Commission accepted the WACC rates and components thereof used by AltaGas

¹² Decision 2014-357: AltaGas Utilities Inc., 2015 Annual PBR Rate Adjustment Filing, Proceeding 3408, Application 1610838-1, December 18, 2014.

in the 2013 capital tracker true-up and 2014-2015 capital tracker forecast applications as a placeholder pending the outcome of Proceeding 3434.

24. The actual and forecast WACC rates used by AltaGas in proceedings 3152 and 3244 were consistent with the Commission’s findings in Decision 3434-D01-2015. However, two adjustments were required, as referenced in the Commission’s March 25, 2015 letter. First, a correction to the 2013, 2014 and 2015 embedded debt rates to reflect a one basis point error in the 2012 debt rate was required. AltaGas provided the original and corrected embedded debt rates, which are summarized in the following table:

Table 1. 2013, 2014 and 2015 embedded debt rates (per cent)¹³

	2013	2014	2015
Original debt rates	5.074	4.898	4.750
Corrected debt rates	5.075	4.900	4.752

25. The second adjustment incorporated the updated ROE and equity thickness from Decision 2191-D01-2015. AltaGas submitted that it had reflected the updated ROE of 8.3 per cent and equity thickness of 42 per cent in the updated application.¹⁴

Commission findings

26. The Commission has reviewed the calculations in the supporting schedules to the application and is satisfied that the corrected embedded debt rates and the ROE and equity ratio approved in Proceeding 2191 have been correctly reflected in AltaGas’ accounting test. The Commission finds that AltaGas has complied with the Commission’s directions.

3.3 Projects not originally forecast for 2013

27. In Decision 2014-373, the Commission denied capital tracker treatment for certain pipeline replacement and station refurbishment projects due to a lack of evidence on the proceeding record to conclude that the costs for those projects were prudent. The projects that were denied capital tracker treatment are:

- Morinville (rural), Pincher Creek “mole line” (rural) and Stettler (town) non-certified polyethylene (PE) pipe replacement projects
- Drumheller (downtown) pre-1957 steel pipe replacement project
- Post regulator stations (PRS) LE069 and MN032¹⁵

28. AltaGas removed the capital additions associated with each of the denied projects from rate base, as summarized in the table below:

¹³ Exhibit 20176-X0001.03, application update, paragraphs 8 and 20.

¹⁴ Exhibit 20176-X0001.03, application update, paragraphs 9 and 22.

¹⁵ Decision 2014-373, paragraphs 179-188 and 257-262.

Table 2. Rate base removals for projects denied for capital tracker treatment¹⁶

Project	Capital addition amounts removed (\$)
Morinville (rural) PE pipe	248,893
Pincher Creek "mole line" (rural) PE pipe	28,719
Stettler (town) PE pipe	69,787
Drumheller pre-1957 steel pipe	<u>237,362</u>
Pipe subtotal	584,761
PRS LE069	54,854
PRS MN032	<u>13,384</u>
Station subtotal	68,238
Total pipe and station	<u>652,999</u>

Commission findings

29. The Commission has reviewed the supporting schedules to the application and is satisfied that AltaGas has correctly removed the capital addition amounts denied for capital tracker treatment from the calculations.

3.4 Income tax temporary differences

30. AltaGas submitted that there are income tax temporary differences associated with removal of specified capital additions from the 2013 capital tracker true-up amounts. Specifically, removal of the pipe replacement and station refurbishment projects results in lower income tax recovery, and consequently, a higher revenue requirement due to reductions in tax-deductible capitalized overheads applicable to those capital additions, as well as book-to-tax temporary differences between depreciation and capital cost allowance.

31. AltaGas noted that income tax temporary differences are accounted for as a Y factor adjustment and are addressed in its annual PBR filing. AltaGas' 2015 interim rates currently include a Y factor adjustment for income tax temporary differences for the period of January 1 to December 31, 2013, reflecting temporary differences based on the applied-for 2013 capital tracker true-up amount. AltaGas submitted that in order to reflect the income tax adjustment in the 2013 capital tracker true-up, an offsetting adjustment would also need to be made to reduce the Y factor adjustment for 2013. AltaGas calculated that the Y factor adjustment for income tax temporary differences needs to be reduced by \$37,197.¹⁷ AltaGas proposed that the update to the

¹⁶ Exhibit 20176-X0001.03, application update, paragraphs 14 and 16.

¹⁷ Exhibit 20176-X0001.03, application update, paragraph 25; Exhibit 20176-X0002.02, Schedule 1.0. application update attachment.

Y factor adjustment be included as part of its 2015 Rider F application, consistent with Commission direction from paragraph 363 of Decision 2014-373.¹⁸

Commission findings

32. Income tax temporary differences have been identified and explained by AltaGas, and approved by the Commission in previous decisions, most recently in Decision 2014-357.

33. The Commission accepts AltaGas' income tax temporary differences explanation provided in the application and responses to information requests. The Commission has reviewed the temporary differences calculations and considers them to be accurate. Accordingly, the request to reduce the currently approved temporary income tax Y factor refund by \$37,197 is approved and AltaGas is directed to make the adjustment in its upcoming 2015 Rider F application.

3.5 Materiality thresholds

34. AltaGas provided the materiality threshold¹⁹ calculations in the supporting schedules to the application. AltaGas submitted that the changes to the 2013-2015 thresholds do not impact the eligibility of any of the capital trackers.²⁰

Commission findings

35. The Commission has reviewed the calculations and is satisfied that AltaGas has interpreted and applied the test properly. The Commission has also compared the updated program capital expenditures to the materiality limits and finds that each of AltaGas' proposed 2013, 2014 and 2015 capital tracker programs, individually and in aggregate, continue to exceed the materiality thresholds and thus are eligible for K factor treatment.

4 K factors

36. In Decision 2014-373, the Commission directed AltaGas to update the 2013 K factor true-up and the 2014 and 2015 K factor forecast amounts in the compliance filing. AltaGas was also directed to include the updated K factor amounts in its 2015 Rider F application.²¹

¹⁸ Exhibit 20176-X0002.03, paragraphs 24-27.

¹⁹ The materiality test is the third of the three criteria originally outlined in Decision 2012-237 and elaborated on in Decision 2013-435. An applicant needs to meet each of the three criteria in order to obtain capital tracker approval.

²⁰ Exhibit 20176-X0001.03, application update, paragraph 28.

²¹ Paragraphs 363, 365 and 366.

37. The following table contains a breakdown provided in the application of the impact on the 2013, 2014 and 2015 K factors of the various items described above:

Table 3. 2013, 2014 and 2015 K factors²²

	Item	2013 – total programs (\$)	2014 – total programs (\$)	2015 – total programs (\$)
1	Applied-for K factor adjustment ²³	(188,287)	\$2,184,474	3,712,184
2	Correction to embedded cost of debt rate	175	506	720
3	Updated I factor ²⁴	N/A	N/A	1,326
4	Updated Q factor ²⁵	N/A	N/A	(2,825)
5	Removal from rate base of 2013 projects that were not approved in Decision 2014-373	10,181 ²⁶	(59,511)	(58,482)
6	Change in equity ratio from 43 per cent to 42 per cent	(18,203)	(27,401)	(39,950)
7	Change in ROE from 8.75 per cent to 8.3 per cent	(78,380)	(114,642)	(163,229)
8	Total K factor impacts (Items 2 + 3 + 4 + 5 + 6 + 7)	(86,227)	(201,048)	(262,440)
9	Updated K factor (Items 1+8)	(274,513)	1,983,426	3,449,744
10	Interim PBR rate adjustment K factor	(188,287) ²⁷	1,233,616 ²⁸	3,340,965 ²⁹
11	Adjustment (Items 9 - 10)	(86,226)	749,810	108,779

Commission findings

38. The Commission has reviewed the 2013, 2014 and 2015 K factor calculations provided in the supporting schedules to the application and is satisfied that the calculations have been performed correctly. Accordingly, the updated 2013, 2014 and 2015 K factor adjustments are approved.

39. The \$86,266 increase in the K factor true-up refund adjustment as a result of the difference between the updated 2013 K factor true-up refund adjustment of \$274,513 and the \$188,287 refund adjustment included in AltaGas' 2015 annual PBR rate adjustment application

²² Exhibit 20176-X0001.03, application update, K factor tables from sections 2.3 and 3.1.

²³ The 2013 K factor was approved on a placeholder basis in Decision 2014-357. The 2014 and 2015 K factors were approved on a forecast basis in Decision 2014-373, subject to the relevant directions contained in that decision.

²⁴ Approved in Decision 2014-357.

²⁵ Approved in Decision 2014-357.

²⁶ The increase due to income tax outweighs the reductions in depreciation, debt and equity return, resulting in a positive number for 2013.

²⁷ 2013 amount was included in 2015 interim rates.

²⁸ Proceeding 2831, 2014 annual PBR rate adjustment filing.

²⁹ Proceeding 3408, 2015 annual PBR rate adjustment filing.

and approved on an interim basis by the Commission in Decision 2014-357 needs to be addressed. In paragraph 363 of Decision 2014-373, the Commission said:

... AltaGas is directed to file an application for an adjustment to Rate Rider F to refund amounts that were approved in Decision 2014-357 related to the 2013 capital tracker true-up that are in excess of the 2013 capital tracker true-up amount that will be approved in the compliance filing to this decision. ...

40. The net change to the K factor adjustment was a larger K factor true-up refund. Accordingly, AltaGas is directed to include this increased refund in its Rider F application.

41. The \$749,810 difference between the updated 2014 K factor forecast collection adjustment of \$1,983,426 and the \$1,233,616 collection adjustment included in 2014 interim rates also needs to be addressed. Similarly, the \$108,779 difference between the updated 2015 K factor forecast collection adjustment of \$3,449,744 and the \$3,340,965 collection adjustment included in 2015 interim rates needs to be addressed. In paragraph 366 of Decision 2014-373, the Commission said:

... AltaGas is directed to file an application for an adjustment to Rate Rider F to collect, on an interim basis, the 2014 and 2015 forecast amounts approved in this decision that are in excess of the K factor placeholder amounts that have been included in AltaGas' 2014 and 2015 PBR rates ...

42. AltaGas is also directed to include any qualifying carrying charges and the calculation methodology in its Rider F application.

5 Order

43. It is hereby ordered that:

- (1) The updated 2013, 2014 and 2015 K factors adjustments applied for in the application are approved.
- (2) AltaGas Utilities Inc. shall reflect the \$37,197 reduction in the 2013 Y factor true-up refund adjustment, as provided for in this decision, in its next Rider F application.
- (3) AltaGas shall reflect the \$86,266 increase in the 2013 K factor true-up refund adjustment, as provided for in this decision, in its next Rider F application.
- (4) AltaGas shall reflect the \$749,810 and \$108,779 increases in the 2014 and 2015 K factor forecast collection adjustments, respectively, as provided for in this decision, in its next Rider F application.

Dated on June 25, 2015.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
AltaGas Utilities Inc. (AltaGas or AUI) Consumers' Coalition of Alberta (CCA)

AltaGas Utilities Inc. (AltaGas or AUI) Consumers' Coalition of Alberta (CCA)
Alberta Utilities Commission
Commission panel N. Jamieson, Commission Member
Commission staff L. Desaulniers (Commission counsel) A. Corsi P. Howard

Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. The Commission accepts AltaGas' income tax temporary differences explanation provided in the application and responses to information requests. The Commission has reviewed the temporary differences calculations and considers them to be accurate. Accordingly, the request to reduce the currently approved temporary income tax Y factor refund by \$37,197 is approved and AltaGas is directed to make the adjustment in its upcoming 2015 Rider F application. Paragraph 33
2. The net change to the K factor adjustment was a larger K factor true-up refund. Accordingly, AltaGas is directed to include this increased refund in its Rider F application. Paragraph 40
3. AltaGas is also directed to include any qualifying carrying charges and the calculation methodology in its Rider F application. Paragraph 42