



AltaGas Utilities Inc.

Change to Rate 1/11 – Rural Other Standard Non-Refundable Contribution

January 10, 2012



The Alberta Utilities Commission

Decision 2012-007: AltaGas Utilities Inc.

Change to Rate 1/11 - Rural Other Standard Non-Refundable Contribution

Application No. 1607508

Proceeding ID No. 1354

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Fifth Avenue Place, Fourth Floor, 425 First Street S.W.

Calgary, Alberta

T2P 3L8

Telephone: 403-592-8845

Fax: 403-592-4406

Web site: www.auc.ab.ca

1 Introduction

1. New natural gas service customers in rural areas of Alberta outside of towns are required to make an up-front one-time contribution to the capital cost of installing the service. Different capital cost contributions apply in different situations. In this case, AltaGas Utilities Inc. (AUI) applied to the Alberta Utilities Commission (the AUC or the Commission) to increase the standard contribution amount for new customers residing outside of towns and rural subdivisions¹ from \$3,500 plus GST to \$5,400 plus GST, effective January 1, 2012. The principal purpose of the change was stated to be a desire to respond to a request from the Government of Alberta, Agriculture and Rural Development, Rural Utilities Division (Rural Utilities), to more closely align the AUI rural contribution levels to the rest of the rural natural gas providers in the province, such as ATCO Gas and the rural gas cooperatives. AUI also stated that the increase in revenues from the standard contribution charge would be offset by an equal decrease in the revenues expected from the non-standard contribution charges. Fewer rural other customers would be required to pay a non-standard contribution and those that did would pay a lower contribution charge. The result would be no impact on the revenue requirement of the company and, therefore, any other rates charged by the company.

2. The Commission issued notice of the application on July 22, 2011, which included a requirement that interested parties wishing to intervene in this proceeding must submit a statement of intent to participate (SIP) to the Commission by August 5, 2011. On August 5, 2011, the Office of the Utilities Consumer Advocate (UCA) and the Consumers' Coalition of Alberta (CCA) submitted SIPs. In its SIP, the CCA requested the opportunity to test the application with written information requests (IRs) before commenting on whether it objected or not to the application. In its SIP, the UCA requested the opportunity to submit information requests and argument and reply, if considered necessary at that time, through a written process.

3. By letter dated August 9, 2011, the Commission established the following process and schedule:

Process step	Deadline date
Information requests to AUI	August 23, 2011, 4 p.m.
Information responses	September 7, 2011, 4 p.m.
Argument	September 21, 2011, 4 p.m.
Reply argument	October 5, 2011, 4 p.m.

¹ Current Rate 1/11- rural other standard non-refundable contribution (standard contribution) in the AUI tariff.

4. By letter dated September 21, 2011, the Commission asked a subsequent supplementary IR and adjusted the schedule for argument and reply argument to be due September 27 and October 12, 2011 respectively.

5. The Commission considers the record of the proceeding to have closed on October 12, 2011.

6. In reaching the determinations contained within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, including the evidence and argument provided by each party. Accordingly, 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 that matter.

2 Issues

7. Several issues were raised by parties during the proceeding, including:

- the lack of follow-up by AUI to the Commission's direction in Decision 2008-103² and its lack of reasons or rationale supporting the requested change
- that no specific references were made to any Rural Utilities authority under the *Gas Distribution Act*
- that no support was provided for the determination of AUI's maximum installation cost, which is used in the calculation of the non-standard contribution charges for higher cost customer installations
- that no support was provided for the determination of the company's investment level
- the departure from cost-based rates and resulting cross subsidization between customers that would arise from approving the application

3 Discussion of issues

8. In response to a Commission IR,³ AUI responded that its proposal was driven by a request from Rural Utilities in order to reduce requirements for non-standard contributions. In response to a Commission follow-up IR,⁴ AUI submitted written correspondence from Rural Utilities, consisting of a December 28, 2007 email and a September 22, 2011 letter.

9. In its September 22, 2011 letter, Rural Utilities described its concern that AUI's standard contribution has historically been much lower than the majority of other Alberta rural gas distributors. Rural capital contribution rates charged by the majority of Alberta's gas distributors are in the \$5,000-\$6,500 range with ATCO Gas at \$6,120 for the 2011 construction season. In its

² Decision 2008-103: AltaGas Utilities Inc., 2007 Deficiency Rider, Interim Refundable Rates, and Standard Contribution – Rural Other, Application No. 1575162, Proceeding ID. 64, October 21, 2008.

³ Exhibit 9.01, response to AUC-AUI-1(a).

⁴ Exhibit 14.01, response to AUC-AUI-2.

December 28, 2007 email, Rural Utilities stated that the range was \$3,200-\$4,400 with ATCO Gas at \$3,800.

10. Rural Utilities also stated that, as a result of AUI's lower rate, Rural Utilities continues to receive complaints with respect to AUI prices charged to higher cost service installations.

11. Based on Rural Utilities' request, AUI proposed the increase in standard contribution to \$5,400:

AUI observes since the December 28, 2007, correspondence, the range of rural contributions for other gas distributors has increased significantly relative to AUI's:

December 2007: \$3,200 to \$4,400
September 2011: \$5,000 to \$6,500

Based on the current range, AUI's request to set the contribution at \$5,400 appears reasonable and the resulting rate is still below the mid-point of the range.⁵

12. AUI provided several reasons in support of its request to increase the standard contribution, including:

- an increase in customer focus and satisfaction and a decrease in complaints due to lower non-standard contributions, in turn leading to efficiencies for customers and AUI and a reduction in the likelihood of issues escalating to Rural Utilities or the Commission
- a more uniform application of rural other contributions
- a resulting greater cost certainty for rural customers regarding new gas distribution services requested
- a resulting possible increase in the number of applicants who can afford the installation cost
- provision of a reasonable comparison to other utilities' rural service contribution rates
- recognition of several requests from Rural Utilities to increase the standard contribution
- recognition of Rural Utilities' authority over the installation of rural gas services
 - The installation of Rural Other services occurs under the purview of the *Gas Distribution Act* administered by Rural Utilities (Government of Alberta, Agriculture and Rural Development, Rural Utilities Division).⁶
- the fact that the increase to standard contributions is offset by an equal reduction in non-standard contributions with a consequent zero net rate impact to customers overall⁷

13. The UCA argued that the request from Rural Utilities for AUI to reduce the requirements for non-standard contributions provided no reasons or rationale or any references to the *Gas Distribution Act* supporting the requested change. The UCA did not consider that simply decreasing the frequency of the need to assess non-standard contributions should take precedence over cost-based charges.

⁵ Exhibit 14.01, response to AUC-AUI-2.

⁶ Exhibit 9.01, response to AUC-AUI-1(a).

⁷ Exhibits 15.01 and 19.01, AUI argument and reply.

14. With respect to customer complaints, the UCA submitted that any reduction in complaints from non-standard customers may be accompanied by an increase in complaints from the customers being asked to contribute an additional \$1,900 (\$5,400 - \$3,500) of standard contribution.⁸

15. AUI explained that the differences between the three Rate 1/11 categories are due to the Government's rural gas program, which came into effect in the 1970s, and to differences in construction method, costs and other factors. AUI stated:

AUI is very mindful of these differences and has long had the practice of using its contribution policy (corollary of investment policy) to equalize the costs of serving these three Rate 1/11 customer categories. Equalizing the costs of serving customers served under Rate 1/11 has been accomplished by using a combination of the Standard and Non-Standard Non-Refundable contributions.⁹

16. In its September 22, 2011 letter to AUI, Rural Utilities explained its preference for a standard contribution rate that is in line with the average cost of constructing all services, with revenues derived from low cost services helping to offset the costs of more expensive services. Rural Utilities stated this has been the practice among Alberta's rural gas distribution utilities for several years. Rural Utilities stated that AUI had a history of setting capital contributions that are far below the average cost of construction and encouraged AUI to increase its rural prices to be in line with prices charged by other gas distributors thus enabling more potential customers an opportunity to receive natural gas services at a reasonable rate.

Commission findings

17. Decision 2008-103 referred the standard contribution issue to AUI's 2008/09 general rate application (GRA). The issue was not brought forward by any of the parties in the Phase I portion of AUI's GRA and, if it was discussed during the Phase II portion of AUI's GRA, no reference was made to the issue in the settlement filed with the Commission. Further, it was not raised by either AUI or interveners in the current 2010-2012 GRA.

18. This application deals with one specific aspect of AUI's contribution policy - standard versus non-standard contribution in the rural other category. Issues related to the determination of AUI's maximum installation cost and the company's investment level are not the subject of this proceeding. This proceeding requires a determination of whether increasing the standard contribution charge so that the non-standard contribution charge can be lowered is justified.

19. The Commission understands and accepts that, on average, AUI's request to increase the standard contribution amount is expected to exactly offset reductions in the non-standard contribution amount. In addition, AUI's request is limited to the customer category (rural other) that is outside the boundaries of areas of customer density (rural town and rural subdivision).

20. The Commission has considered that AUI did not provide references to the *Gas Distribution Act* or any subordinate legislation that would support a suggestion that the request by Rural Utilities to increase the standard contribution charge is in any way binding on the Commission or AUI, nor has the Commission been able to find such authority. Nevertheless, the

⁸ Exhibit 20, UCA reply argument.

⁹ Exhibit 9.01, AUI response to AUC-AUI-1(a).

Commission does understand that the categories of rural gas service currently employed by AUI are attributable to the province's rural gas program and recognizes the desire of the provincial government to reduce the required non-standard contributions for the highest cost rural customers in order to promote the roll-out of natural gas services in rural areas. The Commission also recognizes that raising the standard contribution charge in AUI's territory will help accomplish this objective.

21. In addition, even though Alberta's rural gas distributors are not directly comparable for historical and other reasons, the Commission is satisfied that an increase in standard contributions to \$5,400 is reasonable considering the range in standard contributions charged by those comparators.

22. The Commission understands the issues of cost causation and cross subsidy raised by the UCA. In effect, future customers in the rural other category that are required to pay the higher standard contribution charge will be subsidizing those future customers in the same category that will be paying a lower non-standard contribution made possible by the increase in the standard contribution charge. This is not a case where all new rural customers requiring installations outside of towns have, in the past, paid the full difference between the average cost in town and the specific cost of serving their new locations. The current standard contribution policy already gives rise to subsidy issues. Some customers who paid the standard contribution charge in the past were paying more than their actual cost of service and this helped reduce the amounts of the standard contribution paid by other customers and also helped reduce the non-standard contribution charges paid by others. This charging of rates higher than cost to some customers so that others could pay less than their cost is a form of price discrimination. The question to be answered in this proceeding is whether requiring new customers to pay the new higher standard contribution charges to lower the non-standard contribution charges to be paid by other new customers gives rise to unjust discrimination.

23. In the Commission's view, the policy objective of the province to promote the roll-out of natural gas services to rural areas through lower contributions for the highest cost customers in certain rate classes, the fact that cross subsidies between customers are required to accomplish the policy and the fact that the Commission has approved the current similar system of subsidies (albeit with lower subsidy amounts) within AUI's current rates, lead the Commission to conclude that the decision to impose such subsidies does not, in and of itself, give rise to unjust discrimination between and among rural other customers. It is also necessary, however, to consider the amount of the subsidy.

24. The fact that AUI is proposing a rural other standard contribution charge in the same range as that charged by other gas distributors serving rural customers is sufficient for the Commission to be satisfied that the proposed rural other standard contribution charge does not give rise to unjust discrimination between and among rural other customers requiring new installations because a similar magnitude of cross subsidies has already been approved by the Commission and exists in the territories of other rural gas distributors in the province.

25. The Commission therefore accepts AUI's requested increase to its Rate 1/11 - rural other standard non-refundable contribution.

Order

26. It is hereby ordered that:

- (1) AUI's request to increase its Rate 1/11 - rural other standard non-refundable contribution from \$3,500 plus GST to \$5,400 plus GST is approved, effective the date of this decision.
- (2) AUI update its website to reflect the change in the Rate 1/11 - rural other standard non-refundable contribution rate and advise the Commission in writing under Proceeding ID No. 1354 when the website update is complete.

Dated on January 10, 2012.

The Alberta Utilities Commission

(original signed by)

Willie Grieve
Chair

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
AltaGas Utilities Inc (AUI) S. Smith
Consumers' Coalition of Alberta (CCA) J. A. Wachowich A. P. Merani
Office of the Utilities Consumer Advocate (UCA) T. Marriott L. Kerckhof R. Daw K. Kellgren R. Bruggeman
The Alberta Utilities Commission Commission Panel W. Grieve, Chair Commission Staff P. Howard M. McJannet P. Dmytruk