



AltaGas Utilities Inc.

**Application for a Further Exemption from the Requirements of
AUC Rule 028 Pursuant to Alberta Utilities Commission
Decision 2011-346**

July 18, 2012

The Alberta Utilities Commission

Decision 2012-189: AltaGas Utilities Inc.

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AUC Rule 028 Pursuant to Alberta Utilities Commission Decision 2011-346

Application No. 1608205

Proceeding ID No. 1746

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1 Introduction

1. On February 28, 2012, the Alberta Utilities Commission (AUC or the Commission) received an application from AltaGas Utilities Inc. (AUI) requesting a further exemption, pursuant to AUC Decision [2011-346](#),¹ from compliance with certain sections of AUC [Rule 028: Natural Gas Settlement System Code Rules](#) (Rule 028 or the NGSSC).

2. In the application, AUI requested Commission approval for an extension, to March 15, 2013, of the exemption approved in Decision 2011-346. AUI later amended its requested exemption to reflect its two-phase approach, with the first phase (phase one) providing the basic functionality required for Rule 028 compliance to be completed by December 14, 2012, and the second phase (phase two) providing the web portal user interface to be completed by March 15, 2013.²

3. With respect to AUI's dispute resolution process, AUI proposed to continue following the Commission's direction in Decision 2011-346 - that any disputes not resolved within 20 business days of the delivery of the notice of dispute should be submitted to the Commission in accordance with Section 5.3.4 of the NGSSC during the period of this temporary exemption.³

4. AUI also indicated that it anticipates it will require changes to its terms and conditions of service (T&Cs) as part of achieving full compliance with Rule 028 and expects to submit an application to the AUC for approval of any identified amendments prior to the implementation of its compliance with Rule 028.

5. The Commission issued notice of the application on March 1, 2012 to its gas and pipelines email distribution list, including a statement of intent to participate (SIP) deadline of 4 p.m., March 15, 2012, for any parties wishing to intervene.

6. SIPs were filed by Direct Energy Marketing Limited (DEML), ATCO Gas, and the Office of the Utilities Consumer Advocate (UCA). DEML stated that it intended to monitor the proceeding as an interested stakeholder and that AUI's request for an exemption until March 15, 2013, was not unreasonable considering the system and operational changes required. ATCO Gas indicated that the extent of its participation was unknown but that ATCO Gas may be affected by the matters raised and the ultimate disposition of this matter by the AUC. While

¹ Decision 2011-346: Natural Gas Settlement System Code Rules Exemption Application, Application No. 1607324, Proceeding ID No. 1236, August 23, 2011.

² Exhibit 19.01, argument, paragraphs 6-7.

³ Decision 2011-346, paragraph 36.

neither supporting nor opposing the application filed by AUI at this stage, the UCA specified that it would prefer a written proceeding to allow for review and testing of the application.

7. On March 12, 2012, the Commission issued preliminary information requests (IRs) to AUI.

8. By letter dated March 22, 2012, the Commission established the following process and timeline for the application:

Process step	Schedule
Information requests to AUI	April 5, 2012
Information responses from AUI	April 20, 2012
Argument	May 4, 2012
Reply argument	May 18, 2012

9. The Commission and the UCA submitted information requests to AUI and by letter dated April 19, 2012, AUI requested an extension to the IR response date, citing resource strain related to the Rate Regulation Initiative proceeding.⁴ By letter dated April 20, 2012, the Commission agreed to AUI's request and provided the following updated timeline:

Process step	Original schedule	Revised schedule
Information responses from AUI	Friday, April 20, 2012	Friday, April 27, 2012
Argument	Friday, May 4, 2012	Friday, May 11, 2012
Reply argument	Friday, May 18, 2012	Monday, May 28, 2012

10. In both argument and reply argument, the UCA submitted that it did not oppose the application. DEML stressed in argument and reply argument that AUI's settlement system should be compliant with all aspects of Rule 028 and, in that regard, raised certain issues which are discussed below.

11. All reply arguments were submitted by May 25, 2012, and the Commission therefore considers the close of the record for the proceeding to be May 25, 2012.

12. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. 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 Background

13. In Decision [2010-260](#),⁵ ATCO Gas Natural Gas Settlement System Code Revision dated June 8, 2010, the Commission approved ATCO Gas' settlement system code, updated to

⁴ Rate Regulation Initiative, Application No. 1606029, Proceeding ID No. 566.

⁵ Decision 2010-260: ATCO Gas, Natural Gas Settlement System Code Revision, Application No. 1605983, Proceeding ID. 552, June 8, 2010.

harmonize with AUC [Rule 021: Settlement System Code Rules](#) (Rule 021) for the electric market. At paragraph 13 of Decision 2010-260,⁶ the Commission stated its intention to initiate a consultation on the development of a generic AUC rule “pertaining to natural gas settlement system code, with a view to simplifying the harmonization of Rule 021 and the NGSSC.”

14. In Bulletin [2010-22](#), released on August 30, 2010, the Commission notified interested parties of the initiation of a rule development consultation process for the NGSSC. The ATCO Gas NGSSC (which was approved by the Commission in Decision 2010-260), served as the starting point. The Commission asked industry stakeholders for a “collaborative revision of the ATCO Gas NGSSC, making it applicable to the Alberta retail natural gas marketplace while ensuring consistency with Rule 021.”⁷ Interested parties worked with AUC staff to draft the new AUC rule.

15. During the course of the consultation, the Commission gathered feedback on the various provisions of the proposed NGSSC and posted the matrix of comments on the AUC’s website. The matrix included comments from AUI regarding its ability to comply with the various sections of the NGSSC by the date at which Rule 028 would become effective.

16. Bulletin [2011-11](#), issued on April 1, 2011, announced the approval of Rule 028 which came into effect on April 4, 2011. All natural gas market participants operating in Alberta are required to comply with Rule 028. However, in Bulletin 2011-11, the Commission temporarily delayed enforcement of AUI’s compliance with certain sections of the NGSSC pending AUI’s application for exemption⁸ and directed AUI to file an application for any required exemptions prior to May 6, 2011.

17. On May 13, 2011, AUI filed an application with the AUC requesting exemption from compliance with certain sections of Rule 028:

List of sections included in AUI’s exemption request	Description
2.5(1)	Responsibility for estimating missing meter readings and consumption amounts
2.7	Disclosure and protection
2.9	Estimation and liability for settlement
3.1	Profile generation methods
4.1	Unaccounted-for gas
4.2	Settlement interval
4.3	Estimation and settlement timing
5.2	Pre-final error correction (PFEC)
5.3	Dispute resolution process
6	Functional requirements of the settlement calculation
7.1	Business transactions (specifically SPC, WSI, WSS, WSD and SPV)
8.6.2	Wholesale settlement data transfers
8.6.5.3	Site profile change transaction (SPC) – process rules and content
11	Settlement performance reporting
Appendix A	Table A-1 PFEC Application Form

⁶ Decision 2010-260, paragraph 13.

⁷ Bulletin 2010-22.

⁸ NGSSC sections 2.5(1), 2.9, 3.1, 4.1, 4.2, 4.3, 5.2, 6, 7.1, 8.6.2, 8.6.5.3, 11, Appendix A.

18. In Decision 2011-346 the Commission approved a temporary exemption from the sections of Rule 028 listed above and directed AUI to file an application within six months (by February 28, 2012) that included an evaluation of options, including supporting documentation, for implementing a settlement information system that would be compliant with the NGSSC. The Commission made it clear that it considered that a two-year or shorter implementation period was important in order to not unduly hinder the development of a competitive market. AUI was invited to make a case to the Commission in the application to be filed by February 28, 2012, for a further exemption period required for its compliance with Rule 028.

3 Discussion of issues

3.1 AUI's evaluation of options to become compliant with Rule 028

19. In the application, AUI identified three potential options to become compliant with AUC Rule 028: outsource a solution from a third-party vendor (outsource); build a totally custom solution (build); or buy an existing solution and customize as necessary (buy).

20. AUI dismissed the outsource option because only one of the three parties (ATCO I-Tek, ENMAX and EPCOR) identified by AUI as qualified vendors indicated an interest. AUI considered this option unacceptable because it would constitute a monopoly situation.

21. AUI identified Vertex Business Services to be the best source for the build option, based on its experience working with Vertex as AUI's current customer information systems vendor and developer of AUI's current Tariff Billing Code solution. AUI collaborated with Vertex to develop a cost estimate, which came in at a total of \$3.5 million.

22. For the buy option, AUI considered three vendors: Oracle, SAP and ARC Business Solutions. AUI chose Oracle for the buy option based on its utility-specific suite of applications and the resulting lack of need to concurrently adopt new systems to manage business processes unrelated to the settlement system. AUI also noted that Oracle was the designer of the original Rule 028 template. AUI therefore collaborated with Oracle and R44 Consulting LLC to develop a cost estimate, which came in at a total of \$2.6 million.

23. In addition to the cost estimates developed above, AUI also applied several criteria and developed a weighted score for each of the build and buy options. AUI submitted that the Buy option scored materially higher than the build option (295 versus 186).

24. AUI said it did not have the information or analysis required to estimate operating and maintenance costs but that it was confident there would be costs and they would be the same for both the build and buy options. In addition, software maintenance fees would be required, which AUI estimated for the first year at \$147,000 and \$200,000 for the buy and build options, respectively.

25. AUI concluded the buy option was the preferred option.

26. In its March 12, 2012 preliminary IRs, the Commission asked AUI to confirm whether the functional requirements of the solution were considered in AUI's outsource, build and buy options evaluation, and if so, to provide a list of those functional requirements. The Commission

also requested that AUI confirm whether those functional requirements were included in the criteria AUI used to evaluate the options.⁹

27. In its response, AUI confirmed that functional requirements, including the requirements of Rule 028, were considered when evaluating the options. AUI listed the functional requirements it considered as follows:

AUC Rule 028 functional requirements

- perform all required estimation and settlement calculations
- perform settlement error corrections
- meet standards for information exchange
- perform all required standard transactions
- meet performance standards for meter data management
- complete all required settlement performance reporting

Other functional requirements integral to a fully functioning NGSSC system

- rules-based configurability
- error and exception handling work queue functionality
- system interfacing for:
 - retailers
 - distributor operations
- integration capability and flexibility

28. In further response to the Commission's IR, AUI confirmed that the functional requirements were included in the following criteria used by AUI to evaluate the outsource, build and buy options:

- No. 2 - IS&T planning consistency
- No. 4 - Configurability
- No. 9 - Reporting capability
- No. 16 - Integration capability
- No. 18 - System independence [Exhibit 1, Table 3]¹⁰

29. In response to an IR from the UCA, AUI elaborated on its analysis of the outsource option for building a settlement system. AUI explained that because this system would be a mission-critical system for AUI and would be integrated with multiple other AUI business systems, AUI required control of the system to manage future costs and performance issues.¹¹

30. DEML took no position on which settlement system or implementation option AUI should adopt but argued that the resulting system should be compliant with all aspects of Rule 028.¹²

⁹ Exhibit 4.02, AUC.AUI-1.

¹⁰ Exhibit 5.01, response to AUC.AUI-1.

¹¹ Exhibit 15.01, response to UCA.AUI-5(d).

¹² Exhibit 18.01, DEML argument, page 2.

Commission findings

31. The Commission finds that AUI has satisfactorily complied with the Commission's direction in Decision 2011-346 to file, by February 28, 2012, an application outlining its proposed solution with supporting documentation, making a case to the Commission for the further exemption period required for its compliance with Rule 028.

32. Although the Commission would have preferred a more detailed analysis of the outsource, build and buy options and AUI's reasoning for choosing the buy option, the Commission accepts AUI's choice. The Commission's evaluation of AUI's 2012 forecast costs associated with the selected option will be addressed as a part of Proceeding ID No. 1921.¹³

3.2 AUI timeline and schedule for compliance with Rule 028

33. In the application, AUI continued with a two-year maximum timeframe for implementation of a Rule 028 compliant settlement system, supported by DEML and agreed to by the Commission in Decision 2011-346.

34. In response to a Commission IR, AUI provided a revised timeline and schedule, including the distinction of two separate phases in the development of its Rule 028 compliant settlement system.¹⁴ Completion of phase one would provide the basic operation functionality required to create Rule 028 complaint transactions and reporting, while completion of phase two would provide for the functionality required by market participants by way of a web portal for retailers and AUI to interact with AUI's NGSSC system. Further, in response to a UCA IR,¹⁵ AUI reconciled its revised schedule to the original schedule provided by AUI during Proceeding ID No. 1236.¹⁶

35. AUI committed to its proposed timeline of delivery of phase one of its settlement system implementation by December 14, 2012, and phase two by March 15, 2013:

AUI submits the schedule it has outlined in response to AUC.AUI-3(a) is ambitious as there is a large amount of work required to complete the AUI NGSSC Project. [X16.01, p. 2 of 3] At the same time, however, AUI recognizes the importance of compliance with AUC Rule 028 and the significance of establishing systems and processes aligned with existing market practices and expectations. Therefore, AUI has not built in contingencies for time in the schedule. [X15.01, Response to UCA.AUI-1(c), PDF p.4 of 16]¹⁷

36. As noted above, DEML took no position on which settlement system or implementation option AUI should adopt. However, DEML stated in its reply argument that AUI had not provided clarity or timelines on the following issues:

- AUI's ability to provide monthly financial settlement data to retailers until the second phase is completed, no later than March 15, 2013.

¹³ Application No. 1608512, Proceeding ID No. 1921, AUI 2010-2012 General Rate Application Phase I Compliance Filing.

¹⁴ Exhibit 16.01, AUI response to AUC.AUI-3(a).

¹⁵ Exhibit 15.01, AUI response to UCA.AUI-1.

¹⁶ Application No. 1607324, Proceeding ID No. 1236, AUI NGSSC exemption application.

¹⁷ Exhibit 19.01, AUI argument, page 3.

- Stakeholder engagement to define tolerances and limits as experienced in similar implementations in the past. DEML views that clear rules and thresholds are important to understand such that this does not become a barrier to entry to new market participants.
- AUI's expectations that market participants will need to test AUI's interface.
- Amount of historical data that AUI will make available for retailers after the first phase implementation. Further, there should be some ability to test the accuracy of the information to insure large imbalances (and cost exposure) do not accumulate month over month.¹⁸

Commission findings

37. The Commission is satisfied with AUI's submissions with respect to phase one of its settlement system implementation. However, having considered AUI's submissions and DEML's concerns, the Commission is not satisfied that AUI has developed a complete plan for phase two implementation that will lead to a functioning and fully tested settlement system which supports a competitive marketplace. In particular, the Commission is concerned about the lack of provision for system testing, the lack of consideration of what is to occur during the transition period between phases one and two, and the lack of consultation with industry to facilitate a seamless implementation.

38. The Commission therefore directs AUI to continue to implement the delivery of phase one of its settlement system by December 14, 2012. With respect to phase two, the Commission directs AUI to consult with industry to jointly develop an implementation plan for phase two by October 31, 2012. The implementation plan developed with industry consultation should incorporate, at a minimum:

- an operational plan for the transition period between phases one and two
- an end-to-end system testing plan, which includes testing of the web portal, and
- a plan for reviewing the settlement system data outputs with industry to assess the accuracy of the data before the system goes live

39. AUI is directed to file the phase two implementation plan with the Commission by December 1, 2012.

3.3 Exemption from Section 10 (formerly Section 11) of Rule 028

40. In Decision 2011-346, the Commission was not convinced that a permanent exemption to Section 11 should be granted at that time and questioned whether an exemption from Section 11 (currently Section 10)¹⁹ of the NGSSC would be necessary if a settlement system separating the retail and the default gas supply portions of AUI's operations were implemented.

41. The Commission asked AUI whether the proposed solution would allow for the reporting of both the default gas supply and the competitive retail portions of AUI's total deliveries and

¹⁸ Exhibit 20.01, DEML reply argument, page 1.

¹⁹ With the release of Version 1.1 of Rule 028, Section 11 from Version 1.0 became Section 10 in Version 1.1.

receipts as required by the current Section 10 of Rule 028. AUI responded in the affirmative, stating:

The proposed solution would generate DCM information for all sites on AUI's distribution system, including sites taking default gas supply. Further, the proposed solution will be integrated with the natural gas receipts system. The natural gas receipts system records all metered natural gas received into the distribution system. The proposed solution will be utilized to balance daily deliveries and nominations by retailers, as well as facilitate required settlements. The metered receipts data and the data generated from the proposed solution will provide the input within the natural gas receipt system for monitoring and reporting unaccounted for gas.²⁰

42. AUI confirmed that it only required a temporary exemption from Section 10 of the NGSSC.²¹

43. DEML reiterated its belief that the implementation of a NGSSC-compliant system within two years is important for the facilitation and development of a competitive retail gas market in AUI's territory and is consistent with the government of Alberta's policy regarding customer choice.²²

Commission findings

44. The Commission remains of the view that the development of a competitive market must not be hindered and that the potential for cross-subsidization of retail customers by rate regulated customers must be avoided. The Commission is satisfied with AUI's planned system solution relative to these objectives and notes that a permanent exemption from Section 10 of Rule 028 originally requested by AUI is no longer required.

3.4 AUI's dispute resolution process

45. AUI proposed that, during the period of this temporary exemption, it would follow the Commission's direction in Decision 2011-346 regarding the resolution of disputes, namely to resolve them in accordance with Section 5.3.4 of the NGSSC.

46. No concerns were raised by interveners in this regard.

Commission findings

47. AUI is directed to continue to follow the Commission's direction in Decision 2011-346, using Section 5.3.4 of the NGSSC to resolve any disputes that arise.

3.5 Commission assistance with implementation

48. In the application, AUI indicated that it greatly benefitted from the expertise and involvement of Commission staff during its Tariff Billing Code implementation and that a similar consultative approach could be very beneficial in assisting AUI with the implementation of its settlement system.

²⁰ Exhibit 5.01, AUI response to AUC.AUI-2.

²¹ Exhibit 19.01, AUI argument, paragraph 9 and Exhibit 22.01, AUI reply argument, paragraph 3.

²² Exhibit 18.01, DEML argument, pages 2-3.

49. In response to a Commission IR, AUI stated that it anticipated AUC involvement would be most beneficial in the first of AUI's planned two phases, specifically in the requirements and design stages for matters such as rule interpretation.²³

50. DEML questioned whether this is a constructive and cost effective use of AUC staff and time. DEML's view was that further Commission involvement in implementation may infer a certain amount of responsibility on the AUC if any contraventions arise from AUI's implementation of its internal information technology system.²⁴

51. AUI disagreed with DEML's assertion that AUC staff involvement would not be constructive and emphasized that AUI recognizes that the responsibility for compliance with Rule 028 will continue to rest with AUI and not with any AUC staff assisting in a consultative manner.²⁵

Commission findings

52. The Commission considers that a consultative approach using certain Commission staff knowledgeable about Rule 028, and similar to the approach used by AUI in its Tariff Billing Code implementation, may facilitate the timely and accurate implementation of AUI's settlement system. Notwithstanding any consultative involvement of Commission staff in AUI's implementation of its settlement system, compliance with Rule 028 is ultimately AUI's responsibility.

²³ Exhibit 16.01, AUI response to AUC.AUI-3(b).

²⁴ Exhibit 18.01, DEML argument, page 2.

²⁵ Exhibit 22.01, AUI reply argument, paragraph 9.

4 Order

53. It is hereby ordered that:

- (1) AltaGas Utilities Inc. is granted the requested further exemption from compliance with certain sections of Rule 028 as provided for in this decision. AltaGas Utilities Inc. shall implement, by December 14, 2012, phase one of its settlement system.
- (2) AltaGas Utilities Inc. shall file an application with the Commission by December 1, 2012, consisting of the phase two implementation plan developed with industry.
- (3) AltaGas Utilities Inc. shall continue to submit any disputes not resolved within 20 business days of the delivery of the notice of dispute to the Commission in accordance with Section 5.3.4 of the NGSSC during the period of this further exemption.

Dated on July 18, 2012.

The Alberta Utilities Commission

(original signed by)

Anne Michaud
Panel Chair

(original signed by)

Kay Holgate
Commission Member

(original signed by)

Bill Lyttle
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Counsel or representative
AltaGas Utilities Inc. (AUI) J. Coleman
ATCO Gas A. Green M. Bayley N. McKay A. Hagan
Direct Energy Marketing Limited (DEML) S. Puddicombe M. Maciel
Office of the Utilities Consumer Advocate (UCA) R. W. Wallace, Q.C. M. Keen B. Shymanski R. Bell

Alberta Utilities Commission
Commission Panel A. Michaud, Panel Chair K. Holgate, Commission Member B. Lyttle, Commission Member
Commission Staff V. Slawinski (Commission Counsel) P. Howard A. Glass

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 therefore directs AUI to continue to implement the delivery of phase one of its settlement system by December 14, 2012. With respect to phase two, the Commission directs AUI to consult with industry to jointly develop an implementation plan for phase two by October 31, 2012. The implementation plan developed with industry consultation should incorporate, at a minimum:
 - an operational plan for the transition period between phases one and two
 - an end-to-end system testing plan, which includes testing of the web portal, and
 - a plan for reviewing the settlement system data outputs with industry to assess the accuracy of the data before the system goes live. Paragraph 38
2. AUI is directed to file the phase two implementation plan with the Commission by December 1, 2012. Paragraph 39
3. AUI is directed to continue to follow the Commission’s direction in Decision 2011-346, using Section 5.3.4 of the NGSSC to resolve any disputes that arise. Paragraph 47