



AltaGas Utilities Inc.

2012-2013 Rate Rider “E” – Unaccounted-For Gas

October 30, 2012



The Alberta Utilities Commission

Decision 2012-292: AltaGas Utilities Inc.

2012-2013 Rate Rider “E” – Unaccounted-For Gas

Application No. 1608828

Proceeding ID No. 2133

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Contents

1 Introduction..... 1

2 Background 2

3 Discussion of issues 2

3.1 Monthly receipt and delivery volumes for the past five years and UFG percentage loss or gain..... 3

3.2 Seasonal difference in UFG rates and negative UFG amounts..... 3

3.3 Reasons for UFG increases/decreases and steps AUI is taking to reduce UFG 4

3.4 Summary 4

3.5 Commission findings 5

4 Order 7

Appendix 1 – Proceeding participants 8

Appendix 2 – Summary of Commission directions..... 9

Appendix 3 – AltaGas UFG Rate Rider “E” 10

List of tables

Table 1. Determination of UFG rate rider percentage 2012-2013 2

1 Introduction

1. On September 14, 2012, AltaGas Utilities Inc. (AUI or AltaGas) filed an application (application) with the Alberta Utilities Commission (the AUC or the Commission) for an adjustment to AUI’s Rate Rider “E” – Unaccounted-For Gas (UFG) from 1.21 per cent to 1.24 per cent, effective November 1, 2012. Rate Rider “E” is calculated as the arithmetic average of the annual UFG percentages of the preceding five years.
2. On September 18, 2012, the Commission issued a notice of application which required interested parties to submit a statement of intent to participate (SIP) by September 25, 2012.
3. The Commission received a SIP from the Office of the Utilities Consumer Advocate (UCA). The UCA submitted that it required more information in order to properly assess the application and proposed a written process of information requests (IRs), argument and reply.
4. Considering the above, the Commission established the following written process to deal with the application:

Process step	Deadline date
Information requests to AUI	October 3, 2012
Information responses	October 10, 2012
Argument	October 17, 2012
Reply argument	October 24, 2012

5. By letter dated October 19, 2012, the UCA submitted that it considered reply argument to be unnecessary. On October 24, 2012, AltaGas filed reply argument and on October 29, 2012 filed rate schedules. Accordingly, the Commission considers the record of this proceeding closed as of October 29, 2012.
6. In reaching the determinations set out 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 Background

7. In Decision 2011-425,¹ in response to concerns that AUI's efforts to date had not resulted in a reduction to UFG levels, the Commission directed AltaGas to provide the following information in its next UFG application:

- (a) monthly receipt and delivery volumes for the past five years and UFG percentage loss or gain
- (b) a clear and detailed explanation of the seasonal difference in UFG rates, and the specific reasons for negative² UFG amounts in any month during a period where this UFG rate is in effect
- (c) the reasons for any increases/decreases in UFG for AltaGas and what additional steps AltaGas is taking to reduce UFG in its next UFG application
- (d) an explanation of all capital projects and operation and maintenance programs that have been initiated over the last five years and any forecast initiatives designed to improve UFG data and potentially reduce UFG amounts.

3 Discussion of issues

8. In the application, AUI provided the following table, stating that the 2012 UFG percentage of 1.18 per cent falls approximately in the middle of the range for the last five years:

Table 1. Determination of UFG rate rider percentage 2012-2013

Previous five years UFG percentages for the year ended May 31	Per cent loss (gain)
2008	1.17
2009	0.93
2010	1.33
2011	1.61
2012	<u>1.18</u>
Arithmetic average	1.24

9. AltaGas structured the balance of the application so as to provide information in response to the Commission's four directions issued in Decision 2011-425 and set out in the Background section of this decision.

10. No concerns were expressed during the proceeding on AUI's continuing use of a five-year arithmetic average methodology.

11. Through the IR process, the UCA explored various aspects of each of the Commission's four directions.

¹ Decision 2011-425: AltaGas Utilities Inc. 2011-2012 Rate Rider "E" - Unaccounted-For Gas, Application No. 1607636, Proceeding ID No. 1423, October 27, 2011, paragraph 19.

² Negative UFG is not physically possible because it means that more gas is on the system than was put on the system. Negative UFG is caused by sales estimation variances that can be large enough to create an apparent negative UFG volume.

3.1 Monthly receipt and delivery volumes for the past five years and UFG percentage loss or gain

12. In the application, AltaGas provided monthly receipt and delivery volumes and associated UFG percentages for the past five years. In response to the UCA's IRs, AUI provided monthly receipt and delivery volumes for the previous five-year period, 2002-2007.³

13. In argument, the UCA confirmed that this information had been provided and that the UCA considered that AltaGas had satisfactorily responded to this direction.

3.2 Seasonal difference in UFG rates and negative UFG amounts

14. In the application and in response to IRs from the UCA, AUI provided a detailed explanation of estimation/proration and related timing differences in the recording of data and meter flow errors in summer. With respect to negative UFG amounts, AUI submitted:

...sales estimation variances can be large enough to actually create an apparent negative UFG volume in a given month or, more rarely, even two or three consecutive months. However, negative UFG volumes on a monthly basis occur almost exclusively in the shoulder and summer months, are low in relation to total UFG volumes, and essentially reverse or correct themselves over a one-year period or less.⁴

15. AltaGas noted that actions to address the limitations and deficiencies in monthly sales estimation and timing differences resulting from identifying and correcting errors that arise in AUI's manually intensive gas purchase measurement and accounting systems will tend to reduce the volatility of UFG from month-to-month, more than reduce UFG overall. This is because an estimation inaccuracy or error in one month, resulting from one or more of the causes above, will tend to correct or reverse itself in the following month or months.

16. The UCA commented that AltaGas had adequately explained the issue of estimation/proration and related timing differences in recording of data and meter flow errors in summer.⁵

17. However, the UCA took issue with the negative UFG amounts, noting four specific anomalies in the monthly data that AUI had provided. The UCA was concerned with the occurrence of larger negative UFG amounts and submitted that, to date, the negative UFG amounts are, at best, only partially explained. The UCA did not agree with AUI that AUI's linear regression, showing 41 per cent of the monthly variability in UFG volumes was explained by purchase volumes, equated to a fairly strong correlation. The UCA also did not agree with AUI that AUI's comparison of two-month moving average UFG volumes to purchase volumes, showing 66 per cent of the variability was explained by purchase volumes, equated to a much stronger correlation. The UCA submitted that a 90 per cent correlation was required to conclude that a strong correlation exists and proposed that the Commission repeat its direction from Decision 2011-425 to provide a clear and detailed explanation of the seasonal difference in UFG rates, and the specific reasons for negative UFG amounts in any month during a period where this UFG rate is in effect.⁶

³ Exhibit 10.02, UCA.AUI-2(a), Attachment.

⁴ Exhibit 1, application, paragraph 7.

⁵ Exhibit 12.02, UCA argument, paragraph 10.

⁶ Exhibit 12.02, UCA argument, paragraphs 12-13.

3.3 Reasons for UFG increases/decreases and steps AUI is taking to reduce UFG

18. In the application and in response to IRs, AltaGas provided a detailed description of the contributing factors to UFG and the actions it was taking to reduce UFG. Contributing factors include:

- line leaks
- receipt measurement inaccuracies
- gas accounting errors
- sales/billing errors
- theft
- facility damages

19. AltaGas estimated that, across its system in 2011, line leaks resulted in approximately 197 million cubic feet of gas losses, accounting for 45 per cent of 2011 reported UFG. This amount does not include any estimates from gas released by line strikes caused by human interaction. AUI noted that line leak estimation is an inexact exercise because the number and duration of all leaks is not known with certainty. AUI considers that the other factors listed above are less significant causes of UFG, and noted that there are limitations in quantifying their impact.⁷

20. AltaGas explained that it was taking the following actions to reduce UFG:

- major infrastructure replacement programs
- receipt and meter station maintenance programs
- completion of automated meter reading communications upgrades
- the implementation of a new gas accounting system that will reduce errors through the automation of a number of functions and will provide data analysis capabilities
- monthly meter reading for Rate 1/11 customers leading to a reduction in sales/billing errors
- training of all AUI and contract meter reading personnel to identify theft and potentially related suspicious circumstances
- facility damage prevention through the encouragement of safe digging practices

21. The UCA submitted that it took no issue with this information presented by AltaGas.

3.4 Summary

22. AltaGas submitted that, since 2002, its UFG percentages have been as low as 0.43 per cent and as high as 1.61 per cent. AUI noted that, while not necessarily indicative of a trend, its annual UFG declined to 1.18 per cent in 2012 from 1.61 per cent in 2011. In the context of the five year average used in calculating Rate Rider "E", AUI submitted 1.24 per cent is a reasonable rate for purposes of AUI's tariff in 2012-2013.⁸

23. The UCA submitted that it did not object to the proposed Rate Rider "E" in this application but remained concerned with the magnitude of UFG and urged the Commission to repeat its four directions from Decision 2011-425 in order to ensure that AltaGas remains

⁷ Exhibit 11.01, AltaGas argument, paragraph 12.

⁸ Exhibit 11.01, AltaGas argument, paragraph 14.

focused on understanding the reasons for and finding measures to reduce UFG. The UCA proposed that AUI should be required to report on any further progress at the time of its next UFG application.

3.5 Commission findings

24. The Commission is satisfied that AltaGas' proposed UFG rate calculation is consistent with the method approved in previous decisions; most recently in Decision 2011-425.

25. The Commission recognizes that all distribution pipeline systems have UFG as an element of operating a natural gas distribution system. The Commission also recognizes that, due to the many factors that impact UFG, the UFG percentage will vary over time. Given that annual UFG percentages for the past five years have ranged from a low of 0.93 per cent in 2009 to a high of 1.61 per cent in 2011 and that the 2012 UFG percentage of 1.18 per cent falls approximately in the middle of the range for the last five years, the Commission is satisfied that AUI's UFG rate is reasonable when considering historical UFG rates.

26. The Commission realizes that the initiatives undertaken to date by AltaGas to improve the limitations and deficiencies in monthly sales estimation and timing differences resulting from identifying and correcting errors that arise in AUI's essentially manual gas purchase measurement and accounting systems may not directly result in immediate reductions in UFG rates.

27. Although the UCA raised a number of concerns during the proceeding, the Commission notes that the UCA did not object to AUI's proposed UFG rate of 1.24 per cent.

28. The Commission recognizes the UCA's concern that certain months continue to exhibit negative UFG and sometimes relatively high negative UFG. It continues to be somewhat unclear to the Commission how it is possible for a distribution pipeline to experience prolonged negative UFG.⁹ The Commission finds that the regression analyses performed by AUI are not sufficient to demonstrate that the negative UFG is entirely the result of purchases volumes. Therefore, at best, the factors responsible for negative UFG have only been partially explained by the analyses.

29. No evidence has been provided to demonstrate that a 1.24 per cent UFG is an unacceptable magnitude for AltaGas. Nevertheless, 1.24 per cent does represent a significant volume of gas that is unaccounted-for and the Commission considers that a gas pipeline company can and should be working to reduce its UFG percentage to the extent reasonably possible.

30. The Commission also notes that the initiatives and capital programs that were approved in response to AltaGas' 2010-2012 GRA Phase I application,¹⁰ especially to address aging pipelines and leaks, should serve to assist AUI in reducing its UFG percentage.

31. The Commission recognizes the attention and analyses undertaken to date by AltaGas to understand and manage its UFG. AltaGas emphasized its commitment to this in its statement that, "[w]hile AUI appreciates the UCA's concern, AUI as the utility owner has the ultimate interest in controlling UFG as part of its service to customers. As such, AUI will continue to

⁹ Decision 2011-425, paragraph 18.

¹⁰ Decision 2012-091: AltaGas Utilities Inc. 2010-2012 General Rate Application - Phase I, Application No. 1606694, Proceeding ID No. 904, April 9, 2012.

quantify the causes of UFG and take action going forward to reduce UFG fluctuations and UFG overall."¹¹

32. Nonetheless, the Commission also expects that more accurate data and improved detection of UFG will assist the Commission in better understanding the source(s) of AUI's UFG. The Commission therefore directs AltaGas to provide the following information with its next UFG application:

- (a) monthly receipt and delivery volumes and UFG percentage loss or gain from the most current month available back to June 2002
- (b) a clear and detailed explanation of the seasonal difference in UFG rates, and the specific reasons for negative UFG amounts in any month
- (c) the reasons for any increases/decreases in AUI's UFG and details of the additional steps AltaGas is taking to reduce UFG

33. The Commission considers that the information requested in the fourth direction from Decision 2011-425 is effectively captured under direction (c) above, particularly in light of the capital projects and operation and maintenance programs that were approved in Decision 2012-091 dealing with AUI's 2010-2012 GRA Phase I.

34. AltaGas' proposed Rate Rider "E" is approved, as filed.

35. The Commission takes this opportunity to advise AltaGas of the need for it to identify in its Performance-Based Regulation compliance filing¹² whether it will be proposing that Rate Rider "E" be outside of the I-X mechanism, pursuant to the following from Decision [2012-237](#):

722. Companies may not have identified all of the items they plan to flow through to customers in their PBR plans. For example ATCO Gas and ATCO Electric did not mention the continued use of existing riders to collect franchise fees and property taxes in their applications, but clarified that the existing treatment would continue in IR (information request) responses. Similar omissions may have occurred for other PBR proposals because of assumptions made by the companies that the existing treatments will continue. Therefore, the Commission directs the companies to identify all of the riders that they intend to utilize during the PBR term that are outside of the I-X mechanism, describe the costs that are being collected on the riders, and explain why it is reasonable to continue to flow through the costs. Any items that have not been approved as a Y factor in this decision or are not identified as separate riders outside of the I-X mechanism by the companies in their compliance filings will be subject to the I-X mechanism.¹³

¹¹ Exhibit 14.01, AUI reply argument, paragraph 4.

¹² Application No. 1608826, Proceeding ID No. 2130, 2012 Performance-Based Regulation compliance filings.

¹³ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

4 Order

36. It is hereby ordered that:

- (1) AltaGas Utilities Inc.'s unaccounted-for gas (Rate Rider "E") of 1.24 per cent is approved effective November 1, 2012.

Dated on October 30, 2012.

The Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
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Office of the Utilities Consumer Advocate (UCA) T. Marriott R. Daw B. Shymanski G. Garbutt K. Dannacker

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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. Nonetheless, the Commission also expects that more accurate data and improved detection of UFG will assist the Commission in better understanding the source(s) of AUI's UFG. The Commission therefore directs AltaGas to provide the following information with its next UFG application:
 - (a) monthly receipt and delivery volumes and UFG percentage loss or gain from the most current month available back to June 2002
 - (b) a clear and detailed explanation of the seasonal difference in UFG rates, and the specific reasons for negative UFG amounts in any month
 - (c) the reasons for any increases/decreases in AUI's UFG and details of the additional steps AltaGas is taking to reduce UFG..... Paragraph 32

Appendix 3 – AltaGas UFG Rate Rider "E"

RATE RIDER "E"	UNACCOUNTED-FOR GAS RIDER
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FOR THE DETERMINATION OF UNACCOUNTED-FOR GAS

The Unaccounted-For Gas Rate Rider will be used in the calculation of the Gas Cost Recovery Rate Rider 'D', the Third Party Transportation Rate Rider 'G' and to determine the amount of Unaccounted-For Gas as defined in AltaGas Utilities Inc.'s Terms and Conditions of Service.

Unaccounted-For Gas Rider: 1.24%

EFFECTIVE DATE: November 1, 2012	REPLACING RATE EFFECTIVE: November 1, 2011 Decision 2011-425	Page 1 of 1 RIDER "E"
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AltaGas Utilities Inc.