



AUC

Alberta Utilities Commission

**AltaGas Utilities Inc.
Errata to Decision 2012-311**

**2010-2012 General Rate Application – Phase I
Compliance Filing Pursuant to Decision 2012-091**

December 5, 2012

The Alberta Utilities Commission

Decision 2012-311 (Errata): AltaGas Utilities Inc.
2010-2012 General Rate Application – Phase I
Compliance Filing Pursuant to Decision 2012-091
Application No. 1608512
Proceeding ID No. 1921

December 5, 2012

Published by

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The Alberta Utilities Commission
Calgary, Alberta

AltaGas Utilities Inc.
2010-2012 General Rate Application – Phase I
Compliance Filing Pursuant to Decision 2012-091

Decision 2012-311 (Errata)
Application No. 1608512
Proceeding ID No. 1921

1. On November 23, 2012, the Alberta Utilities Commission (AUC or the Commission) issued Decision 2012-311.
2. The 2012 revenue requirement of \$57,094,632 that was approved in Section 4 of the decision did not include the full \$1,811,600 of meter reading costs approved in Section 3.33, “Other – monthly meter reading costs.” The amount of \$453,000 of meter reading expenses plus \$1,087 of related return on rate base costs were excluded. The correct approved revenue requirement is $\$57,094,632 + \$453,000 + \$1,087 = \$57,548,719$.
3. Further to Section 48 of the Commission’s [Rule 001: Rules of Practice](#), this errata decision is issued to correct the error.
4. Section 4 of this errata decision, has been amended to include the corrected approved revenue requirement for 2012.

Dated on December 5, 2012.

The Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Kay Holgate
Commission Member



AltaGas Utilities Inc.

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1 Introduction

1. On June 4, 2012, AltaGas Utilities Inc. (AUI or AltaGas) filed its 2010-2012 General Rate Application – Phase I compliance filing (compliance filing) with the Alberta Utilities Commission (the AUC or the Commission). The compliance filing was prepared by AUI pursuant to directions set out in AUC Decision [2012-091](#).¹ An update to the compliance filing was filed by AUI on July 27, 2012.²

2. Based on the compliance filing update, AUI's forecast revenue requirements for 2010, 2011 and 2012 have been reduced by \$2,975,556, \$4,644,456 and \$5,487,871, respectively. Rate base, net of contributions in aid of construction, for the test years has been increased by \$582,286, \$2,169,816 and \$3,624,844, respectively.

Table 1. Revenue requirement

| | 2010 | 2011 | 2012 |
|---------------------------------------|---------------|---------------|---------------|
| July 4, 2011 GRA supplementary filing | \$48,884,984 | \$55,912,566 | \$62,582,503 |
| Compliance filing update | \$45,909,428 | \$51,268,110 | \$57,094,632 |
| Reduction | (\$2,975,556) | (\$4,644,456) | (\$5,487,871) |

Table 2. Rate base

| | 2010 | 2011 | 2012 |
|---------------------------------------|---------------|---------------|---------------|
| July 4, 2011 GRA supplementary filing | \$135,850,450 | \$153,545,010 | \$175,393,071 |
| Compliance filing update | \$136,432,736 | \$155,714,826 | \$179,017,915 |
| Increase | \$582,286 | \$2,169,816 | \$3,624,844 |

3. On June 6, 2012, the Commission issued a notice of application for this proceeding to parties included on the Commission's electronic distribution list. Any party who wished to intervene in the proceeding was requested to submit a statement of intent to participate (SIP) to the Commission by June 20, 2012.

¹ Decision 2012-091: AltaGas Utilities Inc., 2010-2012 General Rate Application – Phase I, Application No. 1606694, Proceeding ID No. 904, April 9, 2012.

² Exhibit 24.01 contains the latest updated compliance filing schedules. Exhibit 24.01 was filed as an update on July 27, 2012 and reflects required adjustments identified by AltaGas during the course of the proceeding.

4. The Commission received SIPs from:

- the Consumers' Coalition of Alberta (CCA)
- the Office of the Utilities Consumer Advocate (UCA)
- ATCO Gas (A Division of ATCO Gas and Pipelines Ltd.)

5. In its SIP, the CCA requested the opportunity to test the application with a process of written information requests and stated that it intended to file argument and reply argument. The UCA considered that a written proceeding, including information requests, was necessary to clarify the record and to assist it in determining whether it had any objections to AUI's compliance filing. ATCO Gas indicated that it would be monitoring the proceeding.

6. Based on a review of the application and the intervener SIPs, by letter dated June 25, 2012, the Commission established a written process. Subsequently, AUI requested an extension to the original deadlines for the submission of argument and reply argument to August 10, 2012 and August 27, 2012, respectively, which the Commission granted.

| Process step | Schedule | |
|--------------------------------|-----------------|-----------------|
| | Original | Revised |
| Information requests to AUI | July 9, 2012 | |
| Information responses from AUI | July 23, 2012 | |
| Argument | August 7, 2012 | August 10, 2012 |
| Reply argument | August 21, 2012 | August 27, 2012 |

7. For the purposes of this decision, the Commission considers the record to have closed on August 27, 2012.

8. 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

2.1 2010-2012 GRA Phase I

9. On October 22, 2010, AltaGas filed its 2010-2012 General Rate Application – Phase I (GRA application)³ with the Commission. AltaGas filed material updates to the GRA application on March 11, 2011⁴ and July 4, 2011.⁵ The March 11, 2011 GRA application update included 2010 actual expenditures and year end balances, the impacts of the deferral of the implementation of International Financial Reporting Standards to January, 2012, the KPMG study on inter-affiliate shared services, and a request for a demand-side management deferral

³ Application No. 1606694, Proceeding ID No. 904.

⁴ Proceeding ID No. 904, Exhibit 30.01.

⁵ Proceeding ID No. 904, Exhibit 61.

account. AltaGas requested that, due to the scope and impact of the changes and to avoid unnecessary confusion, the updated application replace the previous application in its entirety. The July 4, 2011 GRA supplementary filing reflected AUI's adoption of United States Generally Accepted Accounting Principles for regulatory purposes.

10. The Commission held an oral hearing in Edmonton from October 11 to 19, 2011 and on April 9, 2012 issued Decision 2012-091 including the Commission directions which were the subject of this proceeding.

2.2 Interim rates applications

11. On October 15, 2010, AltaGas filed a 2010 interim rates application seeking approval for the continuation of the existing interim refundable rates approved in Decision 2009-038.⁶ The 2010 interim rates were approved by way of AUC Decision 2010-535.⁷

12. On December 3, 2010, AltaGas filed a 2011 interim rates application for approval of interim refundable rates effective January 1, 2011. Decision 2010-621⁸ approved an increase of 6.045 per cent to AUI's 2010 interim refundable rates, effective January 1, 2011. On May 9, 2011, AltaGas applied for updated 2011 interim rates to reflect a revenue requirement approved in Decision 2011-073,⁹ that was more current than that filed in the 2010-2012 GRA. By way of Decision 2011-311,¹⁰ the Commission approved a decrease, by rate class, to AUI's existing 2011 interim refundable rates.

13. On August 18, 2011, AltaGas filed an application with the Commission requesting approval of 2012 interim refundable rates. On January 12, 2012, the Commission issued Decision 2012-013¹¹ approving an increase of 12.603 per cent to AUI's 2011 interim refundable rates, effective February 1, 2012.

2.3 2008-2009 GRA Phase II outstanding matters

14. On May 21, 2010, AltaGas filed the 2008-2009 GRA Phase II application, based on the final approved results of the corresponding GRA Phase I application. A negotiated settlement process was conducted and resulted in the filing of a settlement agreement which included a provision extending the principles agreed upon in the settlement agreement to allow the establishment of final rates for the period 2010 to 2012. This was to be accomplished through a Phase II compliance filing following receipt of a final decision on AltaGas's 2010-2012 GRA Phase I.

⁶ Decision 2009-038: AltaGas Utilities Inc., 2008 Interim Refundable Rates, Application No. 1604826, Proceeding ID. 170, March 30, 2009.

⁷ Decision 2010-535: AltaGas Utilities Inc., Interim 2010 Rates Application, Application No. 1606665, Proceeding ID. 889, November 18, 2010.

⁸ Decision 2010-621: AltaGas Utilities Inc., 2011 Interim Rates, Application No. 1606827, Proceeding ID. 971, December 24, 2010.

⁹ Decision 2011-073: AltaGas Utilities Inc., 2008-2009 General Rate Application – Phase II Negotiated Settlement, Application No. 1606230, Proceeding ID No. 651, March 8, 2011.

¹⁰ Decision 2011-311: AltaGas Utilities Inc. 2008-2009 General Rate Application Phase II Compliance and Updated 2011 Interim Rates, Application No. 1607310, Proceeding ID No. 1220, July 25, 2011.

¹¹ Decision 2012-013: AltaGas Utilities Inc., 2012 Interim Rates, Application No. 1607602, Proceeding ID No. 1403, January 12, 2012.

15. On March 8, 2011, the Commission issued Decision 2011-073, approving the negotiated settlement. The decision included the following Commission direction with respect to finalizing rates for the period 2010 to 2012, which is addressed below in Section 3.35.

128. AUI included in its settlement application and settlement agreement a provision for any changes to rates made during the period 2010-2012 to be applied on an across the board basis to maintain the same revenue to cost ratio percentages for all billing components of all rate classes, as set forth in the rate design summary included as Appendix A to the settlement. By letter dated July 29, 2010, the Commission indicated its support for this. Also, as indicated above, the Commission supports the continued adherence to the 95 – 105 per cent revenue to cost ratio band and accepts the various trade-offs made and the regulatory, cost of service, rate design and public interest principles as explained by AUI in response to the Commission’s information request. The Commission therefore approves the request to apply any changes to rates made during the period 2010-2012 on an across the board basis in order to maintain the same revenue to cost ratio percentages for all billing components of all rate classes. The Commission considers (see Section 4.3.3 above) this will also provide for regulatory efficiencies, which in the Commission’s view will be in the public interest and therefore directs AUI, once its revenue requirement has been finalized for 2010-2012 in Proceeding ID No. 904, to file an updated COSS for 2010-2012 in a Phase II compliance filing. However, as per Decision 2010-621, the Commission notes that rates for 2010 and a portion of 2011 have already been collected under the current rate design approved in Decision 2007-079. AUI is therefore directed, in its final rate applications for the years 2010 and 2011, to include the reconciliation between the rate design approved in this decision and that in place when the revenues were collected. [Footnote removed]

16. On May 9, 2011, AltaGas filed an application in compliance with Decision 2011-073. That compliance application also included a request to revise AltaGas’s 2011 interim rates commensurate with the more current revenue requirement filed in its 2010-2012 GRA update dated March 11, 2011. On July 25, 2011, the Commission issued Decision 2011-311, approving that compliance application and the revised 2011 interim refundable rates.

3 Discussion of issues

17. AltaGas responded to each of the 39 directions issued in Decision 2012-091. This section deals with each of those responses.

3.1 AUC Direction 1 – forecast increases in salaries

18. AUC Direction 1:

43. With respect to forecast increases in salaries, the Commission finds AltaGas’s forecast salary escalator of three per cent to be reasonable in 2011 when compared against the supporting inflation indices but is not persuaded that different inflation rates should be applied to union and non-union personnel in 2012. The Commission considers that a four per cent increase in 2012 for both non-union and union personnel is reasonable and more consistent with underlying economic indices cited by AltaGas in its application. AltaGas is directed in the compliance filing to adjust its inflation rate forecast for salaried personnel to four per cent in 2012.

19. In the compliance filing, AUI provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect a four percent inflation rate for salaried personnel in 2012. The adjustment results in a decrease in salary expense of \$79,300 and a decrease in associated benefits of \$8,200. There is an associated decrease in capitalized salaries of \$17,600 and capitalized benefits of \$2,000 resulting from the inflation rate adjustment.

20. During the interrogatory phase of the proceeding, the UCA requested more details in support of the reductions that AUI had reflected in its response to this direction. In response to UCA-AUI-1,¹² AUI submitted that errors had been made in the calculations used to derive the reductions included in the response to the direction. AUI indicated that the correct reductions should be a decrease in total salaries of \$112,300 (instead of \$96,900) and a decrease in benefits of \$26,400 (instead of \$10,200). AUI reflected these revised adjustments in the compliance filing update and supporting schedules. The revised adjustments were a decrease in salary operating expenses of \$92,000, a decrease in capitalized salaries of \$20,300, a decrease in benefits operating expenses of \$21,600 and a decrease in capitalized benefits of \$4,800.

Views of the parties

21. In its argument, the UCA stated that it was prepared to accept the further reductions to the salaries and benefits that AUI set out in response to UCA-AUI-1.

Commission findings

22. The Commission has reviewed the details of the calculations of salaries and related benefits provided by AUI in the attachments to the response to UCA-AUI-1¹³ and considers that the revised adjustments are in accordance with Direction 1 from Decision 2012-091. The Commission accepts the revised adjustment amounts as filed in the compliance filing update and supporting schedules, and finds that AUI has complied with Direction 1 from Decision 2012-091.

3.2 AUC Direction 2 – reclamation costs

23. AUC Direction 2:

117. The Commission considers that the remediation costs that are the subject of the above noted business cases should be approved only if the costs are reasonable and necessary for the provision of utility service. Given the record of the proceeding, the Commission is unable to make a determination as to whether these remediation costs are necessary for the provision of utility service. At issue is the question as to whether the facilities (in this case leases) for which the remediation projects are proposed are correctly a cost of AltaGas's utility service. Accordingly, the Commission directs AltaGas to file with the Commission, at the time of the compliance filing, its views as to why these costs are necessary for the provision of utility service, along with supporting evidence. The Commission will make its determination with respect to this matter in its decision on the compliance filing.

¹² Exhibit 23.01.

¹³ Exhibits 23.02 and 23.04.

Views of the parties

24. In the compliance filing, AUI responded to the Commission direction submitting that the Alberta government has made a number of changes to its *Environmental Protection and Enhancement Act* to improve environmental accountability and thereby imposed additional liability on landowners and facility operators with respect to environmental protection and remediation requirements. AltaGas selected a number of locations for further assessment, up to and including Phase II Environmental Site Assessments. Having commenced its remediation program in prior test periods, AUI sought recovery of costs applicable to three sites scheduled for remediation during the 2010 to 2012 period, to be recovered in AUI's distribution rates during the period 2010 to 2012.

25. AUI described two of the three sites, Tennaco Watts and St. Paul #1, as former production well sites acquired, operated and depleted in the ordinary course of AUI's business of providing natural gas supply to customers. The operation of these facilities was for the benefit of utility customers and was required to provide a safe, reliable and economic source of gas to nearby communities. Absent these facilities, gas supply would not have been available or would have been significantly more costly to provide, if it could reasonably be provided at all. AUI did not sell production from these sites to the external market. These two production well sites are leased properties. Remediation was undertaken in 2011 on the Tennaco Watts site and in 2010 on the St. Paul #1 site.

26. The third site, the South Clyde meter station, is a purchase meter station and continues to be used by AUI in the provision of regulated utility service. Remediation is forecast to be undertaken on the South Clyde meter station site in 2012.

27. AUI also stated that although it is arguable costs associated with production facilities should only be recoverable from default gas customers, at the time the facilities were in production, all customers with the exception of a few who were on the then-available Rate 10, would have effectively been default gas supply customers. Accordingly, all environmental remediation costs included in AUI's 2010-2012 GRA should be approved as forecast and recovered in AUI's distribution rates.

28. In response to a CCA information request,¹⁴ AUI submitted that work has been undertaken by AUI on several retired station and well sites since the 1990s and the associated remediation costs have been reviewed and approved by the Commission or its predecessors, most recently in AUI's 2005-2006, 2007, and 2008-2009 GRAs. Initial remediation costs associated with the St. Paul #1 and Tennaco Watts sites were included and identified in AUI's 2008-2009 GRA.

29. The CCA submitted that, based on a review of the evidence filed in the compliance filing, it appeared that the remediation costs of the two production sites properly form a part of AUI's utility service. However, the CCA expressed concerns. Since the remediation costs of the two production sites were recovered by AUI as net negative salvage through the annual depreciation reserve charge while those costs were in rate base, it did not agree that customers should pay again for remediation through the remediation capital costs as proposed by AltaGas. The CCA argued that, in the normal course of events, the next depreciation study should result in a true-up between the actual and the theoretical depreciation reserve. Some of the proposed remediation

¹⁴ Exhibit 17.01, CCA-AUI-1(h).

costs may already have been recovered through the annual depreciation reserve charge in previous years.¹⁵

30. The CCA was also concerned that AUI's default customers should not be responsible for paying for 100 per cent of any costs; rather the costs should be apportioned between default and competitive customers.¹⁶

31. AUI's position was that, while the remediation costs would normally be recovered through the net salvage provision of depreciation, in the case of the two production sites, at the time the assets were in rate base, the current remediation requirements related to those assets did not exist. The liabilities only crystallized after the assets were fully depleted and depreciated in the provision of utility service and following the implementation of more stringent legislated remediation requirements.¹⁷

32. With respect to the CCA's concern that some of the proposed costs may have already been recovered in previous years, AUI submitted that it will have under-recovered approximately \$158,900 in production site remediation costs by the end of 2012. While any accumulated amounts in the depreciation reserve may help to offset these costs, the existing reserve is also required to address potential reclamation liabilities which, by legislation, are expected to remain in place for as much as 25 years following issuance of the reclamation certificate. AUI also submitted that, although unlikely, if the forecast remediation costs for the production site exceed final costs, any balance in the depreciation reserve could, with the AUC's approval, be used to offset the costs of removal related to other utility assets (e.g. stations, mains or services) or otherwise credited to the account of customers.¹⁸

33. In response to the CCA's final concern, AUI reiterated the position it provided in the compliance filing that all customers, with the exception of a few who were on the then-available Rate 10, would have effectively been default gas supply customers. AltaGas added that these facilities were required and used by AUI in meeting its obligation to serve customers and ensuring reliable gas delivery to customers in discrete sections of AUI's service territory which, at the time, could not viably source gas from the intra-provincial pipeline system. Accordingly, these facilities were integral to the overall development and integrity of AUI's system, which benefitted all customers. Given that this compliance filing will finalize AUI's distribution rates and that those rates are passed on to all AUI customers, including those on competitive supply, AUI submitted that the proposed recovery of AUI's production facility remediation costs as part of its 2010-2012 GRA should effectively ensure that the costs are appropriately recovered from all customers.¹⁹

34. In reply argument, the CCA provided an additional submission opposing AUI's proposal to recover reclamation costs for assets no longer in use. The CCA quoted Decision [2011-450](#)²⁰ and contended that the Commission made it clear that it should not be the responsibility of customers to bear ongoing costs:

¹⁵ Exhibit 29.01, CCA argument.

¹⁶ Exhibit 29.01, CCA argument.

¹⁷ Exhibit 32.01, AUI reply argument.

¹⁸ Exhibit 32.01, AUI reply argument.

¹⁹ Exhibit 32.01, AUI reply argument.

²⁰ Decision 2011-450: ATCO Gas (a Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase I, Application No. 1606822, Proceeding ID No. 969, December 5, 2011.

The Commission considers that the retirement of a utility asset should be followed by the removal of the net book value, if any, from rate base and the movement of the asset to a non-utility account if it is not disposed of at approximately the same time as it is retired. *Ongoing operational and remediation costs (except to the extent that remediation costs are notionally offset by the net salvage component of depreciation expense previously included in rates and collected from ratepayers) associated with the asset after it is no longer used or required to be used to provide utility service should be for the account of the shareholder as the owner of the asset.* [Emphasis added by the CCA]

Commission findings

35. The Commission accepts that these three sites have associated environmental liabilities. The Commission also acknowledges that government environmental standards have changed over time.

36. In the case of the South Clyde meter station, the Commission understands that the site continues to be in use for the provision of utility service. The Commission therefore finds that the associated reclamation costs are a reasonable cost of AUI's utility service and approves those applied-for costs of \$161,550²¹ to be recovered by AUI in AUI's distribution rates.

37. By letter dated June 19, 2012, filed on each of Proceeding ID Nos. 1921, 1697²² and 1698,²³ a group of utilities²⁴ including AUI (the Utilities) requested clarification with respect to the Commission's treatment of stranded costs for the 2011 and 2012 test period. Although the Utilities' letter specifically requested clarification of matters addressed in Decision 2012-154²⁵ and Decision 2012-156,²⁶ the Utilities also identified the remediation costs included in this compliance filing as potentially raising the same issue.

38. In response to the June 19, 2012 letter from the Utilities, the Commission issued a letter dated June 28, 2012 confirming its intention to refer the stranded costs issues raised by the Utilities to Proceeding ID No. 20 or another generic proceeding specifically created for that purpose.²⁷

39. The Commission has determined that consideration of the costs associated with business cases CR001 and CR003 addressing the two former production well sites should also be referred to Proceeding ID No. 20. These business cases appear to raise issues regarding the treatment of utility assets that are no longer required for the provision of utility service, similar to issues that were addressed in Decision 2012-154 (and which were subsequently deferred by the

²¹ Proceeding ID No. 904, AltaGas Utilities Inc. 2010-2012 General Rate Application – Phase I, March update.

²² Proceeding ID No. 1697, Application for Review and Variance of Decision 2011-474, 2011 Generic Cost of Capital.

²³ Proceeding ID No. 1698, Application for Review and Variance of Decision 2011-450, ATCO Gas 2011-2012 General Rate Application.

²⁴ AltaGas Utilities Inc., AltaLink Management Ltd., ATCO Utilities, ENMAX Power Corporation, EPCOR Distribution & Transmission Inc. and FortisAlberta Inc.

²⁵ Decision 2012-154: Decision on Request for Review and Variance of AUC Decision 2011-474, 2011 Generic Cost of Capital, Application Nos. 1608120, 1608122, 1608126, 1608127, 1680129 and 1608136, Proceeding ID No. 1697, June 4, 2012.

²⁶ Decision 2012-156: ATCO Gas (A Division of ATCO Gas and Pipeline Ltd.), Decision on Request for Review and Variance of AUC Decision 2011-450, 2011-2012 General Rate Application Phase I, Application No. 1608121, Proceeding ID No. 1698, June 08, 2012.

²⁷ Exhibit 12.

Commission to Proceeding ID No. 20). For the purposes of AUI's revenue requirement, the placeholders for the costs associated with these business cases will be the applied-for amounts²⁸ of \$156,800 and \$153,000 for Tennaco Watts and St. Paul, respectively. The settlement of these placeholders will be determined after the completion of Proceeding ID No. 20.

40. In its application AUI proposed that the remediation costs should be included in its distribution rates and recovered from all customers. The CCA argued remediation costs should be apportioned between default and competitive customers. The Commission considers the recovery of remediation costs from customer groups to be a Phase II issue.

41. The CCA also raised the issue of whether the costs of remediation had been recovered through negative salvage amounts. The Commission considers that the details regarding the recovery of the remediation costs if approved will be addressed as part of the settlement of the placeholders.

42. The Commission finds that AUI has complied with Direction 2 from Decision 2012-091.

3.3 AUC Direction 3 – Verdant Valley gas supply

43. AUC Direction 3:

126. The Commission finds the expenditure of \$360,840 is reasonable and prudent and addressed the problems identified. This forecast is approved for inclusion in the calculation of revenue requirement. Because the solution as implemented by AltaGas resulted in lower costs than forecast in the business case, the Commission directs AltaGas to only include the actual cost of \$360,840 in the calculation of revenue requirement in the compliance filing.

44. In the compliance filing, AUI provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules include only the actual costs of \$360,340 [sic] for the Verdant Valley gas supply project in the calculation of 2010 revenue requirement. As this adjustment was incorporated in the 2010 forecast in the July 4, 2011 Supplementary Filing [X61.02], no additional changes are required for purposes of this Compliance Filing.

45. In response to AUC-AUI-4,²⁹ AltaGas confirmed that the \$360,840 was originally included in the March 11, 2011 GRA application update (Exhibit 30.01).

Commission findings

46. The Commission acknowledges AUI's submission that the actual costs of \$360,840 for the Verdant Valley gas supply project are included in the calculation of the 2010 revenue requirement as provided in the March 11, 2011 GRA application update and the July 4, 2011 GRA supplementary filing, and not the forecast costs of \$422,700 as reflected in the business case. Therefore no further changes are required. The Commission finds that AUI has complied with Direction 3 from Decision 2012-091.

²⁸ Proceeding ID No. 904, AltaGas Utilities Inc. 2010-2012 General Rate Application – Phase I, March update.

²⁹ Exhibit 16.01.

3.4 AUC Direction 4 – working capital – GST, franchise tax

47. AUC Direction 4:

154. The Commission notes the errors identified, and accordingly directs AltaGas to correct the GST capital expenditures portion of working capital with respect to GST on land and land rights, and to correct the calculation of working capital to exclude franchise tax accruals in the compliance filing.

48. In the compliance filing, AltaGas provided two tables; the first showing the necessary reductions to the GST capital expenditures portion of working capital to reflect the fact that land and land rights are not subject to GST, and the second showing the exclusion of franchise tax accruals in the calculation of working capital.

49. In the compliance filing update and supporting schedules, AltaGas provided revisions to Table 1.0 of Direction 4 provided in the compliance filing. Table 2.0 of Direction 4 provided in the compliance filing was not revised.

50. The Commission has reproduced portions of these two tables³⁰ below:

Table 3. Adjustments to GST on capital expenditures

| | 2010 | 2011 | 2012 |
|--------------------------------------|----------------|----------------|------------------|
| Total land and land rights additions | \$397,138 | \$147,000 | \$1,608,746 |
| GST rate | <u>5.00%</u> | <u>5.00%</u> | <u>5.00%</u> |
| GST paid or accrued | <u>19,857</u> | <u>7,350</u> | <u>80,437</u> |
| Daily amount | 54.00 | 20.00 | 220.00 |
| Net lag (lead) days | <u>18.23</u> | <u>18.23</u> | <u>18.23</u> |
| Cash required | <u>984</u> | <u>365</u> | <u>4,011</u> |
| Rate base - change | <u>\$(984)</u> | <u>\$(365)</u> | <u>\$(4,011)</u> |

³⁰ The two tables are included in the following worksheets of the Excel file submitted as Exhibit 24.01, “Table 1.0 – Direction 4” and “Table 2.0 – Direction 4.”

Table 4. Working capital excluding franchise tax accruals

| Franchise remittance calculation | 2011 | 2012 |
|---|--------------------|--------------------|
| Forecast revenue | \$103,077,691 | \$105,736,578 |
| Average franchise fee rate | <u>5.40%</u> | <u>5.40%</u> |
| Forecast franchise fee billed | 5,566,195 | 5,709,775 |
| Forecast accrual | <u>147,105</u> | <u>718,725</u> |
| Forecast franchise remittance | <u>\$5,713,300</u> | <u>\$6,428,500</u> |
| | | |
| Rate base adjustment | | |
| Accrual adjustment | \$(147,105) | \$(718,725) |
| Daily amount | (403) | (1,969) |
| Net lag (lead) days | <u>(17.22)</u> | <u>(17.22)</u> |
| Rate base - change | <u>\$6,940</u> | <u>\$33,906</u> |

Commission findings

51. The Commission has reviewed the revised working capital calculations related to GST and franchise fees provided by AltaGas and accepts the revised numbers as accurately reflecting the Commission's directions from Decision 2012-091. These costs are approved for inclusion in AUI's 2010-2012 revenue requirement and rate base. The Commission finds that AUI has complied with Direction 4 from Decision 2012-091.

3.5 AUC Direction 5 – return on equity

52. AUC Direction 5:

178. The Commission directs AltaGas to use rates of return on common equity of 9.00 per cent for 2010 and 8.75 for 2011 and 2012 in the compliance filing. The Commission also directs AltaGas to use a common equity percentage of 43.00 per cent for 2011 and 2012 in the compliance filing.

53. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect the specified percentages for rate of return on common equity and common equity percentage. The effect on rate base in 2011 and 2012 is a decrease of \$167,401 and \$192,497, respectively.

54. In the compliance filing update and supporting schedules, AUI updated the effect on revenue requirement from the Commission-directed changes to the rate of return on common equity to \$167,393 for 2011 and \$192,444 for 2012.³¹

³¹ Exhibit 24.01, worksheet entitled "Rev Req Recon," line 58.

Commission findings

55. The Commission has reviewed the return on equity percentages included in the compliance filing for 2010 to 2012 as well as the common equity percentage and finds that they are the figures the Commission directed AUI to use. The Commission finds that AUI has complied with Direction 5 from Decision 2012-091.

3.6 AUC directions 6 to 9 – 2009 debt, 2010 debt, 2012 debenture issuance and 2009 debt issue costs

56. AUC Direction 6:

198. The Commission directs AltaGas, in the compliance filing, to use an interest rate of 5.49 per cent for the two debentures issued by AltaGas on October 8, 2009, and to reflect this interest rate as effective on January 1, 2010.

57. AUC Direction 7:

206. The Commission directs AltaGas, in the compliance filing, to use an interest rate of 4.60 per cent for the \$30 million seven-year debenture issued by AltaGas on October 4, 2010.

58. AUC Direction 8:

212. The Commission directs AltaGas, in the compliance filing, to use an interest rate of 4.40 per cent for the \$28 million five-year debenture it is forecasting to issue in 2012.

59. AUC Direction 9:

220. In Section 5.3.1 of this decision, the Commission found the deemed interest rate for the 2009 debentures is 5.49 per cent, which is the interest rate associated with AL's [AltaGas Limited] seven-year debenture issued on March 25, 2010. To be consistent, the Commission considers that the debt issue costs associated with the March 25, 2010 issue should be used as the basis for allocating the debt issue costs for the 2009 debentures. The total issue costs of the March 25, 2010 issue were \$1.122 million, which represents 0.56 per cent of the total debt issue of \$200 million. The Commission directs AltaGas, in the compliance filing, to allocate the debt issue costs on the 2009 debentures using 0.56 per cent as the basis for the calculations. [Footnote removed]

60. In the compliance filing and supporting schedules, AltaGas provided a table showing the impacts of its response to AUC directions 6 to 9:

- The Commission-directed reduction to 5.49 per cent for the interest rate on the two 2009 debentures.
- The Commission-directed reduction to 4.60 per cent for the interest rate on the 2010 debenture.
- The Commission-directed reduction to 4.40 per cent for the interest rate on the 2012 debentures. With respect to the interest rate on the 2012 debentures AUI subsequently applied for a reduction in the interest rate to 4.07 per cent on a reduced issue amount of

\$20 million; AUI's application was approved in Decision 2012-147.³² AUI reflected this interest rate of 4.07 per cent in the compliance filing update.³³

- A debt issue cost percentage for the two 2009 debentures of 0.56 per cent.

61. AUI revised the table in the compliance filing update and supporting schedules.³⁴

Commission findings

62. The Commission has reviewed the interest rates and debt issuance cost percentage as required in directions 6, 7 and 9 of Decision 2012-091 and finds that AUI has accurately reflected these figures in the compliance filing update. The Commission finds that AUI has complied with directions 6, 7 and 9 from Decision 2012-091.

63. The interest rate on the 2012 debenture that would have been used in accordance with Direction 8 from Decision 2012-091 is 4.40 per cent. AUI has proposed a lower interest rate of 4.07 per cent. This is acceptable to the Commission because it reflects the actual interest rate. Therefore, the Commission finds that AUI is relieved from having to comply with Direction 8 from Decision 2012-091.

3.7 AUC Direction 10 – debt issue costs for the 2010 debenture

64. AUC Direction 10:

221. In Section 5.3.2 of this decision, the Commission found that the deemed interest rate for the 2010 debenture is 4.60 per cent, which is the interest rate associated with AL's seven-year debenture issued on November 26, 2010. To be consistent, the Commission considers that the debt issue costs associated with the November 26, 2010 issue should be used as the basis for allocating the debt issue costs for the 2010 debenture. There is no evidence in this proceeding which details the issue costs associated with the medium term notes issued by AL on November 26, 2010. The Commission directs AltaGas, in the compliance filing, to use an annual issue cost percentage for the \$30 million debenture issued by AltaGas on October 4, 2010, based on AltaGas's pro-rata share of the actual issue costs incurred by AL in connection with the medium term notes issued by AL on November 26, 2010. The Commission further directs AltaGas to submit an accounting of the total costs incurred by AL in connection with the medium term notes AL issued on November 26, 2010.

65. In the compliance filing and the compliance filing update, AUI itemized and totaled the \$814,569 of actual debt issue costs incurred by AL for the issuance of the 2010 debenture on November 26, 2010,³⁵ as follows:

³² Decision 2012-147: AltaGas Utilities Inc., Application for Approval to Issue a Debenture in the Principal Amount of \$20,000,000, Application No. 1608354, Proceeding ID No. 1841, May 31, 2012.

³³ As included on line 13 of the following worksheet of the Excel file submitted as Exhibit 24.01, "3.2D Cost of Debt."

³⁴ The revised table is included in the following worksheet of the Excel file submitted as Exhibit 24.01, "Table 3.0 – Directions 6-9."

³⁵ Exhibit 1, application, page 16.

Table 5. AltaGas Ltd. – total debt issue costs

| Line | Description | Amount (\$) |
|------|-------------------------------|----------------|
| 1 | Underwriter commission | 647,500 |
| 2 | Rating agency | 133,219 |
| 3 | Legal, auditor, Computershare | 5,919 |
| 4 | Prospectus | <u>27,931</u> |
| 5 | Total | <u>814,569</u> |

66. In the compliance filing update and supporting schedules from Section 3.6 above (AUC directions 6 to 9), AUI provided the AL debt issue costs and calculated the annual debt issue cost percentage over the seven-year term of the debenture, based on AltaGas’s pro rata share, as 0.07 per cent.

Commission findings

67. The Commission has reviewed the total AL debt issue costs and the methodology used by AUI in the compliance filing, compliance filing update and supporting schedules, and is satisfied that AUI has reflected the debt issue costs arising from this direction, as detailed above. The Commission considers that the annual debt issue cost percentage for the 2010 debenture has been calculated properly and reflected in the compliance filing update. The Commission finds that AUI has complied with Direction 10 from Decision 2012-091. Accordingly, these costs are approved for inclusion in AUI’s 2010 revenue requirement.

3.8 AUC Direction 11 – debt issue costs for the forecast 2012 debenture

68. AUC Direction 11:

222. AltaGas included a forecast annual issue cost percentage of 0.25 per cent associated with the five-year debt issue it has forecast for 2012. The last issue cost percentage associated with a five year medium term note is the one associated with the \$40 million debenture issued by AltaGas on October 8, 2009. The Commission considers that this same amount should be approved for the five-year debenture AltaGas is proposing to issue in 2012. The Commission directs AltaGas, in the compliance filing, to use the annual debt issue percentage for the \$40 million debenture issued on October 8, 2009 to forecast the debt issue costs for the \$28 million debenture that AltaGas is proposing to issue in 2012.

69. In the compliance filing, AUI referred to its application for the 2012 debenture, which was filed with the AUC subsequent to the release of Decision 2012-091. The 2012 debenture application was approved in Decision 2012-147 with an issue amount of \$20 million, term of eight years, coupon rate of 4.07 per cent and annual debt issue cost percentage rate of 0.07 per cent. In the compliance filing update and supporting schedules, AUI has included a total debt rate for the 2012 debenture of 4.13 per cent, which is comprised of 4.07 per cent for the debt rate and 0.06 per cent for the annual debt issue cost percentage.³⁶

³⁶ As included on line 13 of the following worksheet of the Excel file submitted as Exhibit 24.01, “3.2D Cost of Debt.”

Commission findings

70. The Commission finds that the annual debt issue cost percentage that would have been used in accordance with Direction 11 from Decision 2012-091 would have been 0.11 per cent, which is the annual debt issue cost percentage used by AUI for the \$40 million five-year debenture issue of October 8, 2009, and accepted by the Commission in its findings on AUI's compliance with directions 6 to 9 above. The fact that AUI has proposed to use a lower annual debt issue cost percentage of 0.06 per cent is acceptable to the Commission, as it reflects the actual debt issue cost percentage. In addition, this is consistent with the Commission's acceptance of the actual debt rate on the 2012 debenture in its findings on AUI's compliance with Direction 8 above. In Decision 2012-147, which approved the 2012 debenture issue, it was indicated that: "[t]he 0.07 per cent is the AUI pro rata allocation of the estimated issuance cost incurred by AL for the issuance of its \$200 million eight-year MTN [medium term notes]."³⁷ In addition, it was stated in Decision 2012-147 that: "AUI proposed the annual issue costs for the AUI 2012 debenture to be 0.07 per cent per annum and stated in the application that the calculations for the issue costs are consistent with the Commission direction given in Decision 2012-091."³⁸ The Commission considers that AUI has calculated the actual annual debt issue cost percentage for the 2012 debt issue properly and has reflected that figure in the compliance filing update. Therefore, the Commission finds that AUI is relieved from having to comply with Direction 11 from Decision 2012-091.

3.9 AUC Direction 12 – bad debt expense

71. AUC Direction 12:

232. The Commission notes actual bad debt expense increased from \$101,700 in 2008 to \$164,900 in 2009, with bad debt expense in 2010 declining to \$126,100. Interveners did not object to AltaGas's forecast bad debt expenses. The Commission understands that bad debt expense is subject to significant variability due to changes in energy costs and the economy. The Commission finds AltaGas's 2010 bad debt expense as filed to be reasonable, because it is within the range of actual bad debt experienced by AltaGas in the two previous years. With regard to AltaGas's forecast 2011-2012 bad debt expense, the Commission considers that AltaGas should rely on past experience and revise its forecast for 2011 and 2012 based on a three-year average of actual bad debt expense (2008-2010) to account for the variability in historical bad debt expense. AltaGas is directed to revise its bad debt expense accordingly in the compliance filing.

³⁷ Decision 2012-147, paragraph 14.

³⁸ Decision 2012-147, paragraph 14.

72. In the compliance filing, AUI provided the following calculation:

Table 6. Bad debt expense adjustment

| | (\$) |
|----------------------------------|-----------------|
| 2008 bad debt expense | 101,700 |
| 2009 bad debt expense | 164,900 |
| 2010 bad debt expense | <u>126,100</u> |
| 3-year average | 130,900 |
| | |
| 3-year average bad debt expense | 130,900 |
| 2011 bad debt expense | <u>174,200</u> |
| 2011 bad debt expense adjustment | <u>(43,300)</u> |
| | |
| 3-year average bad debt expense | 130,900 |
| 2012 bad debt expense | <u>170,400</u> |
| 2012 bad debt expense adjustment | <u>(39,500)</u> |

Commission findings

73. The Commission has reviewed the calculation and finds that AltaGas has accurately reflected the Commission’s direction. Therefore, the resulting revised amounts for bad debt expense for 2011 and 2012 of \$130,900, as reflected in the compliance filing update and supporting schedules,³⁹ are approved for inclusion in AUI’s 2011 and 2012 revenue requirement. The Commission finds that AUI has complied with Direction 12 from Decision 2012-091.

3.10 AUC Direction 13 – staff additions

74. AUC Direction 13:

254. Other than the general reductions to FTEs [full-time equivalent] proposed by the UCA related to system betterment costs, interveners did not object to any of the specific additional positions proposed by AltaGas. The Commission has reviewed all of the staff additions requested by AltaGas and considers them to be reasonable with the exception of the proposal to replace the Supervisor IFRS position originally intended to be added in 2011, with an IT support position. The Commission does not approve the addition of an IT support position because the need for this position was not substantiated. The Commission therefore directs AltaGas to remove the costs of the Supervisor IFRS position from the forecast, without the addition of an IT support position.

75. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect the removal of costs for the Supervisor, IFRS position, in the FTE forecast and do not reflect the addition of an IT support position. Forecast salaries and benefits were reduced by \$48,400 and \$10,000 respectively in 2011 and by \$100,700 and \$20,600 in 2012.

³⁹ As included on line 19 of the following worksheet of the Excel file submitted as Exhibit 24.01, “4.0A Expenses by Type.”

76. During the interrogatory phase of the proceeding, the AUC requested more details in support of the allocation of the reductions that AUI had reflected in its response to this direction. In response to AUC-AUI-6,⁴⁰ AUI submitted that an error had been made which inadvertently attributed a portion of the benefits reduction to capital expenditures. AUI added that the benefits reduction related to the position should have been fully attributed to operating expenses. AUI indicated that the effect of the correction is an increase in operating expense and decrease in capital expenditures of \$2,100 in 2011 and \$4,000 in 2012. AUI reflected these revised adjustments in the updated compliance filing and supporting schedules.

Commission findings

77. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules⁴¹ and considers that AUI has properly reflected the reduction in FTEs as directed in Direction 13 from Decision 2012-091. The Commission finds that AUI has complied with Direction 13 from Decision 2012-091.

3.11 AUC Direction 14 – frictional vacancies

78. AUC Direction 14:

259. The Commission accepts the UCA submission, which is consistent with Decision 2009-176, that historical average frictional vacancy rates are a reasonable predictor of FTE vacancy rates for the test period. Therefore, the Commission directs AltaGas, in the compliance filing, to incorporate a 2.93 per cent frictional rate in its revenue requirement in 2011 and 2012 respectively.

79. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules incorporate a 2.93 percent frictional vacancy rate in its forecast revenue requirement for 2011 and 2012. The supporting calculation is set forth in the following Table 6.0.

80. During the interrogatory stage of the proceeding, the UCA requested more details in support of the reductions that AUI had reflected in its response to this direction. In response to UCA-AUI-2,⁴² AUI submitted that it had recalculated average salaries for 2011 and 2012 based on the salaries and percentages forecast in the July 4, 2011 GRA supplementary filing. AUI indicated that, as a result, it would update the reductions made in response to this direction. AUI indicated that the revised reductions for salaries were now \$156,300 in 2011 and \$308,100 in 2012, and the revised reductions for benefits were now \$36,700 in 2011 and \$72,400 in 2012. AUI reflected these revised adjustments in the compliance filing update and supporting schedules.

Views of the parties

81. In its argument, the UCA argued that further reductions were required. The UCA stated that AUI had excluded executive salaries and full time equivalents from the calculation of

⁴⁰ Exhibit 16.01.

⁴¹ For 2011, as included on lines 6 and 7 of the following worksheet of the Excel file submitted as Exhibit 24.01, “2011 Summary.” For 2012, as included on lines 8 and 9 of the following worksheet of the Excel file submitted as Exhibit 24.01, “2012 Summary.”

⁴² Exhibit 23.01.

average salaries that AUI used in determining the reduction for frictional vacancies. The UCA indicated that there is no evidence on the record to support AUI's position that the executive vacancy rate has been zero in the past and will be zero in the test years. The UCA submitted calculations in support of its recommendation that the correct reductions should be as follows:

- \$196,664 for salaries for 2011 (compared to the \$156,300 used by AUI)
- \$350,686 for salaries for 2012 (compared to the \$308,100 used by AUI)
- \$46,211 for benefits for 2011 (compared to the \$36,700 used by AUI)
- \$82,411 for benefits for 2012 (compared to the \$72,400 used by AUI)

82. In its reply argument, AUI indicated that executive salaries relate to 12 positions, namely the president, four vice-presidents and seven directors. AUI stated that it is not forecasting any vacancies in its executive positions and added that, while there may be a possibility of a director position being vacant for a relatively short period of time, as a matter of operational integrity there is little if any likelihood of a vacancy in a vice-presidential and/or presidential position. AUI submitted that, should the AUC consider it appropriate to exclude some executive positions in the calculation of frictional vacancies, then at least half of the executive salaries should be excluded to reflect the vice-presidential and presidential positions.

Commission findings

83. The following was included in paragraph 257 of Decision 2012-091 as it relates to frictional vacancies:

257. ... The UCA recommended that the use of the 2.93 per cent average vacancy rate is warranted and reasonable, resulting in an increase in vacancies of 1.9 FTEs in 2011 and 2.9 FTEs in 2012, corresponding to salary reductions of \$168,655 in 2011 and \$273,818 in 2012. [Footnote removed]

84. It is apparent from this excerpt that the UCA had originally argued that AltaGas should reduce its revenue requirement for the impact associated with a reduction of 1.9 FTEs in 2011 and 2.9 FTEs in 2012. The Commission finds that by reducing the FTEs by 1.9 in 2011 and 2.9 in 2012 in the compliance filing, AltaGas has reflected an average vacancy rate of 2.93 per cent in compliance with the Commission's direction. The combined reduction in salaries included in the compliance filing update and supporting schedules is \$464,400 (\$156,300 plus \$308,100). The UCA's recommendation of an additional 1.9 FTEs for 2011 multiplied by the average cost per FTE of \$86,730 (including the executive category of employees) works out to \$164,787 for 2011. The UCA's recommendation of an additional 2.9 FTEs for 2012 multiplied by the average cost per FTE of \$92,815 (including the executive category of employees) works out to \$269,164 for 2012. The combined total reduction would then be \$433,951 (\$164,787 plus \$269,164), which is still less than the combined reduction of \$464,400 made by AUI.

85. The Commission directed AltaGas to incorporate a 2.93 per cent frictional rate in its revenue requirement in 2011 and 2012 respectively, but made no specific finding with regard to the dollar amount for vacancies that AltaGas had already reflected in the July 4, 2011 GRA supplementary filing. The Commission considers that the UCA is attempting to have AltaGas recalculate the revenue requirement impacts associated with the vacancies included in the

July 4, 2011 GRA supplementary filing. The Commission considers that these figures were approved in Decision 2012-091 and will not be reconsidered in this compliance filing proceeding.

86. The Commission has determined that no further reductions to AUI's salary figures, or related benefits in respect of frictional vacancy are required.

87. The UCA's request for further reductions in this area is rejected. The Commission finds that AUI has complied with Direction 14 from Decision 2012-091.

3.12 AUC Direction 15 – statutory benefits

88. AUC Direction 15:

266. The Commission notes that AltaGas did not respond to the CCA's recommendation with respect to statutory benefits. Due to an absence of evidence and consistent with prior year escalations in EI and WCB, the Commission accepts as reasonable the CCA's recommendation that the total statutory benefits forecast for 2011 and 2012 be reduced by \$12,800 in 2011 and \$30,800 in 2012. AltaGas is directed to revise its statutory benefits forecast in the compliance filing.

89. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect reductions in the forecast statutory benefits of \$12,800 in 2011 and \$30,800 in 2012. These amounts are broken into operating expense and capital expenditures in the 2011 and 2012 Summary schedules in Appendix III.

Commission findings

90. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules⁴³ and considers that AUI has properly reflected the reduction in statutory benefits as directed in Direction 15 from Decision 2012-091. The Commission finds that AUI has complied with Direction 15 from Decision 2012-091.

3.13 AUC Direction 16 – credit card fees

91. AUC Direction 16:

296. The Commission considers that the forecasts for credit card fees should be reduced to reflect the revised timing of the implementation of the credit card payment system. The Commission therefore directs AltaGas to revise these costs to zero in 2011 and \$108,000 in 2012 in the compliance filing.

92. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect forecast credit card fees for 2011 of zero and \$108,000 for 2012. In the same vein,

⁴³ For 2011, as included on line 10 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2011 Summary." For 2012, as included on line 12 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2012 Summary."

forecast credit card fees for 2011 have been zeroed out and forecast 2012 credit card fees have been reduced by \$109,500.

93. During the interrogatory stage of the proceeding, the AUC requested more details in support of the allocation of the reductions that AUI had reflected in its response to this direction. In response to AUC-AUI-7,⁴⁴ AUI submitted that, in the 2010-2012 GRA, credit card fees were included as part of general administrative costs and as such a portion of these credit card fees were capitalized. AUI stated that the credit card fees should have been included as customer accounting costs and as such not subject to capitalization. AUI added that the effect of the correction is an increase in operating expense and decrease in capital expenditures of \$37,835 in 2012. No correction was required for 2011 because all credit card fees for 2011 were removed. AUI reflected these revised adjustments in the compliance filing update and supporting schedules.

Commission findings

94. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules⁴⁵ and considers that AUI has properly reflected the reduction in credit card fees as directed in Direction 16 from Decision 2012-091. The Commission finds that AUI has complied with Direction 16 from Decision 2012-091.

3.14 AUC Direction 17 – regulatory fees

95. AUC Direction 17:

301. Both AltaGas and the UCA agree that a reduction to regulatory fees is warranted. The Commission finds the adjustments proposed by AltaGas to be reasonable and directs AltaGas to reflect these adjustments, in the compliance filing.

96. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect reductions in forecast regulatory hearing costs for 2011 and 2012 of \$183,800 recognized as reductions in regulatory fee expense of \$91,900 in each of 2011 and 2012.

Commission findings

97. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules, and finds that AltaGas has reflected the Commission-directed reductions in regulatory fee expense of \$91,900 in each of 2011 and 2012.⁴⁶ The Commission therefore approves the revised regulatory fees for inclusion in AUI's 2011 and 2012 revenue requirement. The Commission finds that AUI has complied with Direction 17 from Decision 2012-091.

⁴⁴ Exhibit 16.01.

⁴⁵ For 2011, as included on line 3 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2011 Summary." For 2012, as included on line 3 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2012 Summary."

⁴⁶ For 2011, as included on line 4 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2011 Summary." For 2012, as included on line 4 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2012 Summary."

3.15 AUC Direction 18 – pension costs

98. AUC Direction 18:

331. The Commission acknowledges the potentially significant changes in returns which are due in part to market conditions which are outside of the company's control. However, AltaGas has not provided the evidence required with respect to materiality and predictability regarding the need to create a deferral account to capture the experience gains and losses. Therefore, the proposed deferral account is denied. However, the Commission approves the company's requested \$200,000 increase in the 2012 forecast revenue requirement to reflect updated pension cost estimates. AltaGas is directed to include in the compliance filing the net \$200,000 increase in its 2012 revenue requirement, as estimated by Mercer.

99. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect the \$200,000 increase in the 2012 forecast revenue requirement to reflect updated pension cost estimates. The amount in the proposed deferral account for pension costs has also been removed in the Compliance Filing schedules.

Commission findings

100. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules, and finds that AltaGas has reflected the Commission-directed increase in pension costs of \$334,000 and the associated offsetting income tax impacts of \$134,000 as included on Table 31 of Decision 2012-091.⁴⁷ The Commission therefore approves the revised pension expense for inclusion in AUI's 2012 revenue requirement. The Commission finds that AUI has complied with Direction 18 from Decision 2012-091.

3.16 AUC Direction 19 – third-party administration plan costs

101. AUC Direction 19:

370. The Commission considers that the issues raised by the CCA with respect to AltaGas's forecast costs for third party administration are valid. AltaGas did not provide any explanation to refute the CCA's critique or provide any specific evidence to explain the basis for its 2011 and 2012 forecasts. Therefore, in the compliance filing, AltaGas is directed to incorporate the CCA's recommended reductions to the third party administration plans forecast, as provided in the table above. AltaGas is also directed to adjust these amounts of \$26,532 for 2011 and \$26,094 for 2012 for inflation, as suggested by the CCA.

102. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect a reduction of \$26,500 and \$26,100, including inflation, in 2011 and 2012 respectively for third party administration costs.

⁴⁷ For 2012, as included on lines 13 and 36 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2012 Summary."

Commission findings

103. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules, and finds that AltaGas has reflected the Commission-directed reductions to third-party administration plan costs for 2011 and 2012.⁴⁸ The Commission therefore approves the revised third-party administration plan costs for inclusion in AUI's 2011 and 2012 revenue requirement. The Commission finds that AUI has complied with Direction 19 from Decision 2012-091.

3.17 AUC Direction 20 – corporate services costs

104. AUC Direction 20:

394. The Commission does not, however, approve the forecast for unspecified 2011 and 2012 corporate and tax project consulting expenses allocated to AltaGas. The company has failed to provide a sufficient justification for these costs. The Commission directs AltaGas to reflect this finding in its compliance filing to this decision by reducing the corporate services cost allocation by \$97,506 in 2011 and \$100,431 in 2012.

105. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect a reduction in the corporate services cost allocation of \$97,500 and \$100,400 in 2011 and 2012, respectively.

Commission findings

106. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules with respect to corporate service costs. The reductions indicated in AUI's response are identified on line 13 of the worksheet entitled "Table 7.0 - Directions 20 to 24" that was filed as part of the compliance filing update. Accordingly, the revised costs are approved as filed. The Commission finds that AUI has complied with Direction 20 from Decision 2012-091.

3.18 AUC Direction 21 – AUGI CEO compensation

107. AUC Direction 21:

399. The best evidence before the Commission in this proceeding is the total direct compensation comparison with three peer groups in the Mercer report that shows AUGI's CEO total direct compensation is above the median of all three peer groups. As such, the Commission directs AltaGas to adjust the compensation amount of AUGI's CEO to reflect the average amount of the median total direct compensation of the three peer groups before calculating the amount to be allocated to AltaGas in the test years. The Commission calculates the average of the median total direct compensation of the three peer groups to be \$564,000.

⁴⁸ For 2011, as included on line 11 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2011 Summary." For 2012, as included on line 14 of the following worksheet of the Excel file submitted as Exhibit 24.01, "2012 Summary."

108. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect the revised compensation amount of \$564,000 for AUGI's CEO, based on the median total direct compensation amount of three peer groups in the Mercer study.

Commission findings

109. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules⁴⁹ with respect to CEO compensation and finds that the amount for AUI's CEO has been correctly reflected. Accordingly, the revised costs are approved as filed. The Commission finds that AUI has complied with Direction 21 from Decision 2012-091.

3.19 AUC Direction 22 – inter-affiliate costs

110. AUC Direction 22:

402. As AUGI has no plans to fill the vacant Manager of Corporate Reporting and Control position, the Commission agrees with the UCA that the AUGI costs to be allocated to the utility subsidiaries should be reduced by the costs related to this position for the 2010-2012 test years. AltaGas is directed to remove \$134,258 for the vacant Manager of Corporate Reporting and Control position from the company's inter-affiliate costs, for each of the test years, in the compliance filing to this decision.

111. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect the removal of \$134,258 in forecast 2010 costs to reflect the vacant Manager of Corporate Reporting and Control position included in the inter-affiliate costs. In 2011 and 2012, the same amount, adjusted for inflation, is removed from the inter-affiliate costs.

Commission findings

112. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules,⁵⁰ regarding the vacant position for the Manager of Corporate Reporting and Control, and finds that AltaGas has correctly reflected the reduction in costs. Accordingly, the revised costs are approved as filed. The Commission finds that AUI has complied with Direction 22 from Decision 2012-091.

3.20 AUC Direction 23 – inter-affiliate costs

113. AUC Direction 23:

415. The Commission finds that it is reasonable to use 2010 audited financial results to calculate both AL's composite allocator and AUGI's composite allocator. AltaGas is directed to use 2010 audited financial results for the purpose of calculating these allocators. With respect to the AUGI composite allocator, the Commission accepts that using 2010 audited financial statements results in a composite allocator of 54.45 per cent.

⁴⁹ More specifically, the Commission examined the following worksheets of Exhibit 24.01, "Table 7.0-Directions 20-24," "Table 7.0A-Directions 20-24," "Table 7.0B-Directions 20-24," "Table 7.0C-Directions 20-24."

⁵⁰ More specifically, the Commission examined the following worksheets of Exhibit 24.01, "Table 7.0-Directions 20-24," "Table 7.0A-Directions 20-24," "Table 7.0B-Directions 20-24," "Table 7.0C-Directions 20-24."

Accordingly, AltaGas is directed to use an AUGI composite allocator of 54.45 per cent in the compliance filing.

114. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules use an AUGI composite allocator of 54.45 percent.

Commission findings

115. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules,⁵¹ regarding the composite cost allocator and finds that AltaGas has used the composite allocator of 54.45 per cent. Accordingly, the revised costs are approved as filed. The Commission finds that AUI has complied with Direction 23 from Decision 2012-091.

3.21 AUC Direction 24 – inter-affiliate costs

116. AUC Direction 24:

421. Accordingly, the Commission directs AltaGas to reduce the allocated amount of AUGI costs arising from the application of the work effort allocator by 10 per cent in each of 2011 and 2012, owing to uncertainty in the level of projects and tasks affecting the calculation of the work effort allocator, and the lack of support provided for it in respect of these test years.

117. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect a 10 percent reduction of the work effort allocator for AUGI costs in 2011 and 2012.

Commission findings

118. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules⁵² and finds that AltaGas has reflected the costs associated with the Commission's directions with respect to the work effort allocator. Accordingly, the revised costs are approved as filed. The Commission finds that AUI has complied with Direction 24 from Decision 2012-091.

3.22 AUC Direction 25 – shared services agreement

119. AUC Direction 25:

428. The Commission notes that AltaGas and KPMG did not submit evidence with respect to fair market value and provided no evidence as to whether it would be less expensive for AUI to provide the services itself. Although the Commission considers that it may not always be practical, at every GRA, to file evidence or a report that evaluates whether or not it may be less expensive for AltaGas to provide these shared services itself or through a third party, a periodic review would assist the Commission in determining

⁵¹ More specifically, the Commission examined the following worksheets of Exhibit 24.01, "Table 7.0-Directions 20-24," "Table 7.0A-Directions 20-24," "Table 7.0B-Directions 20-24," "Table 7.0C-Directions 20-24."

⁵² More specifically, the Commission examined the following worksheets of Exhibit 24.01, "Table 7.0-Directions 20-24," "Table 7.0A-Directions 20-24," "Table 7.0B-Directions 20-24," "Table 7.0C-Directions 20-24."

whether the existing shared services agreement is a prudent arrangement. The Commission also considers that Section 3.3.4 of AltaGas's Inter-affiliate Code of Conduct contemplates a periodic review of the prudence of its shared services arrangements. The Commission directs AltaGas to undertake such a review at the time of its next filing where inter-affiliate costs are to be considered.

120. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, AUI will conduct a review of the prudence of its shared services arrangements in the next filing where inter-affiliate costs are considered. AUI anticipates such a review would be part of its rebasing application following completion of its 2013-2017 Incentive Regulation Plan.

121. During the interrogatory process, the Commission asked AltaGas if there was any reason AltaGas would not be able or willing to provide a review of the prudence of its shared services arrangements earlier than the end of its performance-based regulation (PBR) term. AUI responded⁵³ that it would continue to comply to the best of its ability with any direction of the AUC related to the review of shared services arrangements. AUI submitted that from a time, cost and resource efficiency perspective, it considers the end of its 2013 to 2017 PBR plan to be the most prudent timing. AUI also submitted that its shared services arrangements have been the subject of extensive review in its 2007, 2008-2009 and 2010-2012 GRAs and that the nature of the costs makes any objective review exceedingly difficult and exceptionally expensive, as indicated by the costs incurred in relation to the previous KPMG studies. Although AUI had discussions with interveners concerning development of the last KPMG study's scope, AUI recommended that consideration be given to prefacing any future analysis with a consultative process involving AUI, the AUC, interveners and a third-party consultant to clearly establish the scope and viability of the requested parameters for review. AUI submitted that such a process would likely facilitate a more productive review and ensure parties have a thorough understanding of the probable costs associated with the requested level of review.

Commission findings

122. The Commission concurs with AUI's observations about the importance, difficulty and costs that are generally associated with a review of shared services arrangements, and considers that a consultative process before the next review takes place, as proposed by AUI, has merit. The Commission considers that this direction is still outstanding and directs AUI to undertake such a consultative process and review at the time of its next filing where inter-affiliate costs are to be considered, or in the first GRA that AUI files after the end of its PBR plan, whichever comes first.

3.23 AUC directions 26 to 29, 31 – depreciation – depreciation parameters and negative salvage rates

123. AUC Direction 26:

457. Given the above, the Commission is not convinced that the life expectancy of the assets in Account 465 should be altered from 60 years to 57 years. Accordingly, AltaGas is directed to retain the life assumptions for Account 465, as approved in Decision 2009-176, in the compliance filing.

⁵³ Exhibit 16.01, AUI responses to information request AUC.AUI-9.

124. AUC Direction 27:

464. Accordingly, AltaGas is directed in the compliance filing to use an Iowa curve of 45-S2.5 to calculate forecast depreciation for Account 467.

125. AUC Direction 28:

475. Accordingly, AltaGas is directed in the compliance filing to use a 50-R4 Iowa curve for the purposes of calculating depreciation for Account 473.

126. AUC Direction 29:

488. Accordingly, AltaGas is directed in the compliance filing to use an Iowa curve of 62.5 R2 to calculate depreciation for Account 475.

127. Further to directions 26 to 29, in paragraph 490 of Decision 2012-091, the Commission found the depreciation parameters of the other accounts (463, 472, 474, 477, 478, 485 and 483.1), for which AltaGas had proposed changes and which interveners did not oppose, to be reasonable. The Commission approved the depreciation parameters for these accounts, as applied-for by AUI.

128. AUC Direction 31:

505. Given the magnitude of the increases requested by AltaGas, and the fact the results of the mathematical analysis do not support the recommended rates, the Commission does not find that there is sufficient evidence to adopt the net negative salvage values proposed by the company. In the absence of sufficient evidence, the Commission denies the requested increases in net salvage rates for Accounts 467 and 473 for the test period and directs AltaGas to include the results of this finding in the compliance filing.

129. Further to Direction 31, in paragraph 506 of Decision 2012-091, the Commission found the net salvage rates proposed by AUI for the other accounts (461, 463, 465, 471, 472, 474, 475, 477, 478, 482, 483, 484, 485, 486, and 488) to be reasonable and much less materially significant than accounts 467 and 473. The Commission also noted the absence of opposition from interveners to the proposed net salvage rates for the other accounts. The Commission therefore approved the net salvage rates for the other accounts as applied for by AltaGas.

130. In the compliance filing, AUI submitted that, in the supporting schedules, it had:

- Reflected the life assumptions for Account 465, as approved in Decision 2009-176.
- Used an Iowa curve of 45-S2.5 to calculate forecast depreciation for Account 467 for all test years.
- Used a 50-R4 Iowa curve to calculate forecast depreciation for Account 473 for all test years.
- Used an Iowa curve of 62.5 R2 to calculate forecast depreciation for Account 475 for all test years.
- Reflected the disallowance of the net salvage values proposed by AltaGas for accounts 467 and 473.

Views of the parties

131. The UCA requested further support for the derivation of the depreciation expense and resulting depreciation rates using the Commission directed Iowa curves and the net salvage rates. In its response,⁵⁴ AltaGas provided the requested support. In argument,⁵⁵ the UCA stated it had reviewed the AltaGas filing and the information responses related to depreciation provided by AltaGas and did not object to the proposed changes in depreciation expense.

Commission findings

132. The Commission has reviewed the depreciation information filed by AltaGas and is satisfied that AltaGas has properly reflected the required depreciation changes. Accordingly, the depreciation amounts and net salvage rates, as provided in the compliance filing, compliance filing update and supporting schedules, are approved. The Commission finds that AUI has complied with directions 26, 27, 28, 29 and 31 from Decision 2012-091.

3.24 AUC Direction 30 – financial reporting

133. AUC Direction 30:

495. The change was proposed to maintain consistency between financial and regulatory reporting. Accordingly, if under U.S. GAAP AltaGas intends to use the mid-year convention for the purposes of financial reporting, the Commission approves the use of the applied-for mid-year convention for the purpose of regulatory reporting as well. AltaGas is directed to confirm its intentions with respect to this change in practice in the compliance filing.

134. In the compliance filing, AltaGas provided the following response:

Pursuant to this Direction, AUI confirms its intention to use the mid-year convention for determining depreciation expense for new assets for the purpose of financial and regulatory reporting under U.S. GAAP. The mid-year convention is reflected in the Compliance Filing schedules for 2012.

Commission findings

135. Having considered AltaGas's confirmation, the Commission finds that there are no adjustments required to the compliance filing in regard to depreciation as AltaGas reflected the mid-year convention in the preparation of its 2010-2012 GRA. The Commission finds that AUI has complied with Direction 30 from Decision 2012-091.

3.25 AUC Direction 32 – capital cost allowance

136. AUC Direction 32:

526. The Commission directs AltaGas, as part of the compliance filing pursuant to this decision, to remove the reduction of \$1,918,919 it made to its forecast 2010 capital cost allowance claim included on Schedule 6.0 B in the July update.

⁵⁴ Exhibits 19.01 and 23.01, AUI response to UCA.AUI-10(a).

⁵⁵ Exhibit 28.02, UCA argument, page 8.

137. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, the Compliance Filing and supporting Schedules reflect the removal of the reduction related to the split tax year of \$1,918,919 in the 2010 forecast capital cost allowance claim.

Commission findings

138. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules and finds that AltaGas has correctly reflect the removal of the reduction related to the split tax year.⁵⁶ The 2010 capital cost allowance amount is approved as filed in the compliance filing update. The Commission finds that AUI has complied with Direction 32 from Decision 2012-091.

3.26 AUC Direction 33 – customer usage

139. AUC Direction 33:

569. The Commission is not persuaded by the CCA's recommendation that the Commission should consider the ATCO Gas average usage per customer and directs AltaGas to adjust its residential customer segment forecast accordingly. The Commission accepts the company's explanation respecting the differences between its forecast and that of ATCO Gas. The Commission also recognizes the differences in the make-up of the customer classes of the two utilities. Therefore, the Commission approves the company's filed forecast for average consumption per customer for Rate 1/11.

140. In the compliance filing, AltaGas identified a potential contradiction in the Commission's direction but concluded that the Commission's intent was to approve AUI's forecast average consumption per Rate 1/11 customer, as filed by AUI in the GRA. Accordingly, AltaGas included in the compliance filing, and the compliance filing update, the originally filed numbers.

Commission findings

141. Paragraph 569 of Decision 2012-091 contained a typographical error and the word "directs" in the first sentence of that paragraph should have been "direct."

142. AltaGas correctly interpreted that the Commission was not directing a change to the forecast average consumption per Rate 1/11 customer. Therefore, because the forecast average consumption per Rate 1/11 customer was already included in the calculation of revenue requirement as provided in the March 11, 2011 GRA application update and July 4, 2011 GRA supplementary filing, no further changes are required. The Commission finds that AUI is in compliance with Direction 33 from Decision 2012-091.

3.27 AUC Direction 34 – distribution revenues

143. AUC Direction 34:

581. AltaGas proposed to recognize the impact of decisions 2011-311 and 2012-013, and the resulting revised 2011 interim rates and the 2012 interim rates in the compliance filing. The Commission is of the view that AltaGas must update its distribution revenue

⁵⁶ The removal of the reduction is reflected on line 48 of the following worksheet of the Excel file submitted as Exhibit 24.01, "Rev Req Recon."

forecast to reflect the amounts resulting from interim rates approved in Decisions 2011-311 and 2012-013 in the compliance filing, and directs AltaGas to do so.

144. In the compliance filing, AltaGas responded that it had incorporated in the compliance filing and supporting schedules the interim rates approved in Decisions 2011-311 and 2012-013. The revenue requirement contains forecast distribution revenues based on these revised rates.

Commission findings

145. The Commission has reviewed the compliance filing, compliance filing update and supporting schedules and is satisfied that AltaGas has incorporated the interim rates approved in Decisions 2011-311 and 2012-013. The resulting 2011 and 2012 forecast distribution revenues are therefore approved. The Commission finds that AUI has complied with Direction 34 from Decision 2012-091.

3.28 AUC Direction 35 – other revenue

146. AUC Direction 35:

601. The Commission directs AltaGas to make any necessary adjustments to the service work and special meter read forecasts for 2011 and 2012 to give effect to the inflation rates approved in this decision, and to include the adjusted forecast amounts in the compliance filing.

147. In the compliance filing, compliance filing update and supporting schedules, AltaGas revised the forecast for service work and special meter reads to reflect inflation amounts of 2.5 per cent for 2011 and 3.0 per cent for 2012.

Commission findings

148. The Commission accepts the inflation rates used by AltaGas and the calculations provided as accurately reflecting the Commission's direction. The revised service work and special meter reads are approved for inclusion in the 2011 and 2012 revenue requirements. The Commission finds that AUI has complied with Direction 35 from Decision 2012-091.

3.29 AUC Direction 36 – default supply administration fee

149. AUC Direction 36:

608. Accordingly, the Commission requires the information regarding how the default supply administration fees included in the GRA application for 2010, 2011 and 2012 were determined. The Commission notes that AltaGas included a calculation in Schedule 6.8 – Functionalized Customer Accounting – Long Run Avoided Costs as part of its 2008-2009 GRA Phase II filing. The Commission directs AltaGas, in the compliance filing, to prepare and submit a schedule similar in format to Schedule 6.8 of Exhibit 3 of Proceeding ID No. 651, for each of 2010, 2011 and 2012. The Commission also directs AltaGas to show how the resulting daily default supply administration fees included in Schedules 7.1C, 7.1D and 7.1E are calculated from the information shown on the schedules similar in format to Schedule 6.8 for each of 2010, 2011 and 2012 directed above.

150. In the compliance filing, AltaGas provided the following response:

The default supply administration fee was determined in the 2008-2009 GRA Phase II negotiated settlement process and included in the resulting rate design. The fee has subsequently been adjusted based on AUC interim rate approvals. As the schedules requested are part of the Phase II process this directive will be complied with as part of AUI's next Phase II General Rate Application.

Commission findings

151. The Commission accepts AUI's submission that the default supply administration fee is more properly a Phase II issue and should therefore be dealt with in AUI's next Phase II filing. The Commission considers that this direction is still outstanding and the Commission directs that this direction be responded to in AUI's next Phase II-related regulatory filing.

3.30 AUC Direction 37 – natural gas settlement system

152. AUC Direction 37:

617. In the February 28, 2012 exemption application, AltaGas provided details of its proposed solution for implementing a settlement information system along with two alternatives and forecast costs. The Commission directs AltaGas to include this information in the compliance filing and any and all additional updated information the company has, so that the Commission can consider whether to approve the forecast costs to be incurred in 2012 (and any actual costs incurred in 2010 and 2011) in relation to AUI's implementation of a settlement information system that is compliant with Rule 028.

153. Decision [2012-189](#),⁵⁷ issued on July 18, 2012, included a finding that the Commission would address AUI's 2012 forecast costs associated with the selected natural gas settlement system option as part of Proceeding ID No. 1921.

154. In the compliance filing, AltaGas provided the following response:

Pursuant to this direction, all updated information available in relation to AUI's proposed solution for implementing a Rule 028 compliant natural gas settlement system is included in Appendix IV of this Compliance Filing. Updated actual and forecast costs have been incorporated in the Compliance Filing and supporting Schedules as directed. Justifications for proposed staff increases related to Rule 028 are also included in Appendix IV.

155. In response to a UCA information request,⁵⁸ AUI maintained its forecast completion dates of December 14, 2012 for phase one and March 15, 2013 for phase two and reduced its estimated total costs by \$30,000 in the compliance filing update and supporting schedules.

⁵⁷ Decision 2012-189: AltaGas Utilities Inc. Application for a Further Exemption from the Requirements of AUC Rule 028 Pursuant to Alberta Utilities Commission Decision 2011-346, Application No. 1608205, Proceeding ID No. 1746, July 18, 2012.

⁵⁸ Exhibit 23.01, response to UCA-AUI-9.

156. Total updated capital costs for the project are forecast by AUI to be \$1,955,000 in 2012 for phase one (for provision of a core settlement system that provides AUC Rule 028⁵⁹ compliant transactions and reporting) and \$748,800 in 2013 for phase two (for provision of a web portal addition for retailer account balancing and monitoring functionality); for a total of \$2,703,800. This project total includes a contingency amount of \$130,200 (\$94,500 for 2012 and \$35,700 for 2013). Estimated operating costs are \$174,200 on a prorated basis for the final four months of 2012 (for the provision of training for the system “going live” in December 2012) and \$521,900 on an annualized basis thereafter. AltaGas also indicated that the majority of the time spent by staff will be in relation to the settlement system and a limited amount on the Tariff Billing Code system.⁶⁰

157. On September 25, 2012, AltaGas filed a letter on Proceeding ID Nos. 2130 and 2131 referring to the denial by the Commission in Decision 2012-237⁶¹ of AUI’s requested adjustment to its 2013 going-in rates with respect to natural gas settlement system capital costs and full year operating costs for the year 2013. In the letter, AUI requested guidance from the Commission for recovering those costs.⁶²

Views of the parties

158. In argument,⁶³ the UCA expressed two concerns. The first concern was whether the first phase of the settlement system will actually be completed and therefore put into rate base by the end of 2012. This concern was based on information provided by AUI⁶⁴ that there had been some slippage in the achievement of the “complete requirements” milestone aspect of the schedule (from July 2, 2012 to July 20, 2012) during the first two months of the project.

159. The UCA’s second concern was whether phase one will in fact provide a service to the public during 2012, based on two statements by AUI:

The Second Phase of the Project will provide a web portal interface for retailers to enable retailer account balancing and monitoring. Although not required to meet the specified reporting requirements of Rule 028, the web portal is a necessary requirement for sustainable and efficient operation of the Settlement System, itself.⁶⁵

...

Following completion of the Second Phase, transfer of data between AUI and retailers will be via the web portal, which will be necessary to enable real time exchange of data necessary for sustained operation of the Settlement System.⁶⁶

160. The UCA submitted that, given the requirement for daily forecasts and backcasts, as specified in Section 4.3 of Rule 028, it does not appear that any meaningful settlements can be

⁵⁹ AUC Rule 028: *Natural Gas Settlement System Code Rules* (Rule 028).

⁶⁰ Exhibit 28.01, UCA argument.

⁶¹ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

⁶² Proceeding ID No. 2130, 2012 PBR Compliance Filings, Exhibit 13.01, AUI letter seeking clarification on Decision 2012-237; Proceeding ID No. 2131, 2012 Capital Tracker Filings, Exhibit 13.01, AUI letter seeking clarification on Decision 2012-237.

⁶³ Exhibit 28.01, UCA argument.

⁶⁴ Exhibit 23.01, response to UCA-AUI-9(d).

⁶⁵ Exhibit 23.01, response to UCA-AUI-9(a).

⁶⁶ Exhibit 23.01, response to UCA-AUI-9(b).

performed until the web portal goes live. The UCA referenced Section 37(1) of the *Gas Utilities Act*, RSA 2000, c. G-5:

The Commission shall determine a rate base for the property of the owner of the gas utility used or required to be used to provide service to the public within Alberta and on determining a rate base shall fix a fair return on the rate base (underlining added by the UCA).

161. Based on Section 37(1), the UCA argued that it does not appear that the settlement system will actually provide service to the public in Alberta until phase two of the system is complete and, therefore, no portion of the settlement system should be included in rate base during 2012. Further, the UCA argued that salary and training costs should be capitalized.

162. With respect to the UCA's first concern, AUI responded that projects of this type and magnitude do not progress along a single linear track and it is reasonable to expect progress in some areas and minor delays in others. AUI re-affirmed that the project is still expected to be completed on schedule.⁶⁷

163. AltaGas provided the following response to the UCA's concern that the system would not be used or required to be used until phase two was complete:

... while the Second Phase is required to enable efficient operation of the NGSSC system, AUI notes the intent is to operate the system using a manual, email based process on an interim basis. As indicated, the use of this temporary, manual process is not considered appropriate for the efficient, long term operation of the system. However, it will still enable AUI to become fully compliant with Rule 028 before the end of 2012 and provide AUI and retail users the opportunity to use and test the system, gain valuable experience and undertake remedial action, if any, while the Second Phase web portal interface is completed. While an interim form of the final system, the NGSSC project at the end of the First Phase will meet Rule 028 requirements and, in fact, be used and useful. Therefore, AUI submits it is reasonable and appropriate to include the forecast costs related to the First Phase in 2012.⁶⁸

164. With respect to salary and training costs, AltaGas disagreed with the UCA's interpretation of Canadian and U.S. GAAP accounting practices and submitted that the UCA's proposal should be rejected. Specifically, AUI argued that the salaries and training relate to the ongoing operation of the system, rather than design, development and implementation. Therefore, AUI's proposed treatment of these costs as O&M expenditures should be approved, as filed.

Commission findings

165. AltaGas filed additional updated information with regard to its implementation of its settlement system.⁶⁹

166. With respect to the UCA's concern about the likelihood of AltaGas meeting its forecast in-service date of December 14, 2012 for phase one of the settlement system, the Commission

⁶⁷ Exhibit 32.01, AUI reply argument.

⁶⁸ Exhibit 32.01, AUI reply argument.

⁶⁹ This direction was included in paragraph 38 of Decision 2012-189.

has not been provided with sufficient evidence to conclude that AUI will not meet its forecast in-service date.⁷⁰

167. Regarding the UCA's concern that the system would not be used or required to be used until phase two is completed and should therefore not be included in rate base, the Commission does not agree for the following reasons.

168. AUC Rule 028 mandates that gas distributors perform daily settlement. The Commission considers that phase one of AUI's settlement system will result in AUI being compliant with Rule 028. As AUI noted in reply argument, phase one will provide the following functionality:

- all required estimation and settlement calculations
- all required standard transactions
- settlement error corrections
- all required settlement performance reporting
- meet standards for information exchange
- meet performance standards for meter data management⁷¹

169. The above functionality means that, upon completion of phase one, AUI and retailers will be provided with settlement information which includes details of the daily usage attributable to each site, daily forecasts for each site, as well as the aggregate amounts attributable to each retailer on a given day. The data available after completion of phase one should also allow for better estimation of usage on a per site basis, leading to more accurate forecasting of daily volumes. This should in turn improve the ability of retailers and AUI (as the default supply provider) to better manage gas purchases.

170. As noted by AUI, the primary purpose of phase two of AUI's settlement system (the web portal) will be to provide automated retailer account balancing and monitoring functionality.⁷² However, given what phase one of AUI's settlement system accomplishes, the Commission considers that the functionality resulting from phase one is sufficient to satisfy the test of "used or required to be used" and therefore should be included in rate base for the purposes of AUI's 2012 rates.

171. The Commission has reviewed and approves as reasonable the forecast settlement system capital and operating costs, including training costs, as provided by AltaGas for 2012. Further, the Commission accepts AltaGas's assertion that salaries and training relate to the ongoing operation of the system, rather than design, development and implementation and, consequently, accepts AUI's proposed treatment of these costs as O&M expenditures.

172. Lastly, in response to the guidance requested in AUI's September 25, 2012 letter regarding 2013 capital and full-year operating costs, as described in Section 7.4 of

⁷⁰ By letter dated October 29, 2012, under Proceeding ID No. 1746, the Commission approved an extension from October 31, 2012 to November 16, 2012 to allow AUI to consult with industry to develop an implementation plan for phase two of the settlement system, and from December 1, 2012, to December 19, 2012 to file the implementation plan with the Commission. The deadline for delivery of phase one of the settlement remains December 14, 2012.

⁷¹ Exhibit 32.01, AUI reply argument, paragraph 17.

⁷² Exhibit 32.01, AUI reply argument, paragraph 20.

Decision 2012-237, Commission-directed costs may be recovered using a Y factor.⁷³ Because NGSSC costs are a result of Commission directions pursuant to AUC Rule 028, AUI may choose to apply in a future annual PBR rate adjustment filing for recovery of these costs as a Y factor adjustment to its PBR plan.

3.31 AUC Direction 38 – demand-side management (DSM) program

173. AUC Direction 38:

625. In this proceeding, the Commission did not have before it any evidence or submissions which distinguish the proposed AltaGas DSM program from that discussed in Decision 2011-450 or any legal arguments on the applicable statutory provisions. Therefore, the Commission considers that the findings in Decision 2011-450 apply to the proposed AltaGas DSM program. As a result, the Commission finds that there is no legal basis for the proposed DSM program and denies the deferral account requested by AltaGas to capture the design and development costs of a DSM program and directs that such costs be removed from the revenue requirement.

174. In the compliance filing, AltaGas provided the following response:

As no costs related to the proposed AltaGas DSM program were included in the GRA, there is no impact on AUI's revenue requirement as a result of the disallowance of AUI's DSM program.

Commission findings

175. Given that there were no DSM-related costs included in AUI's 2010-2012 GRA revenue requirements, the Commission is satisfied that no further adjustments are required. The Commission finds that AUI has complied with Direction 38 from Decision 2012-091.

3.32 AUC Direction 39 – compliance filing - general

176. AUC Direction 39:

626. The Commission directs AltaGas to revise its 2010-2012 GRA Phase I application to reflect the Commission's findings, conclusions and directions in this decision and to make a compliance filing for its 2010-2012 GRA Phase I application by June 4, 2012. The Commission expects AltaGas, in the compliance filing, to provide a summary of all adjustments made.

177. In the compliance filing, AltaGas provided the following response:

AUI's Compliance Filing and supporting Schedules reflect the Commission's findings, conclusions and directions in Decision 2012-091. A summary of all adjustments, by test year, is included as part of the attached Compliance Filing schedules.

Commission findings

178. The Commission considers that AltaGas has complied with the findings, conclusions and directions in Decision 2012-091 and accordingly the Commission finds that AltaGas has complied with Direction 39.

⁷³ Decision 2012-237, paragraph 632.

3.33 Other – monthly meter reading costs

179. In paragraph 278 of Decision 2012-091, the Commission approved AUI's forecast contract meter reading costs of \$1,811,600. However, in the compliance filing, AUI voluntarily reduced this forecast amount by \$453,000 to \$1,358,600. When asked⁷⁴ to explain the non-Commission directed reduction, AltaGas responded that, while it had previously forecast a full year of 2012 costs, due to the protracted 2010-2012 GRA proceeding, monthly meter reading did not actually commence until July 1, 2012.

180. In response to UCA-AUI-6,⁷⁵ AltaGas confirmed that monthly meter reading had been implemented for 95 per cent of its customers as at July 1, 2012, and that the remaining five per cent of its customers would be on monthly meter reading on or before September 1, 2012.

181. In the September 25, 2012 letter (referenced above at paragraph 157) that AltaGas filed in Proceeding ID Nos. 566, 2130 and 2131, AUI also expressed concern about the rejection by the Commission in Decision 2012-237 of a full year of forecast monthly meter reading costs in AUI's 2012 going-in rates. In the letter, AltaGas requested guidance from the Commission for recovering the annualized monthly meter reading costs.

Views of the parties

182. In its argument, the UCA submitted that further reductions were necessary for the monthly meter reading costs. The UCA indicated that, depending on when the monthly meter reading was initiated, the savings would be impacted. The UCA submitted that the Commission should deem that monthly meter reading was initiated in mid-May 2012 and that meter reading costs should be reduced by \$501,000 as compared to the \$453,000 estimated by AUI.

183. In its reply argument, AUI disagreed with the UCA's calculation of related savings. AUI submitted that the reduction it made took into account six months of savings rather than the four and a half months proposed by the UCA. AUI indicated that, based on the UCA's proposal, the cost reduction would be \$339,750.

Commission findings

184. The Commission considers that the reduction included by AUI in the compliance filing is warranted based on AUI having implemented the monthly meter reading program on July 1, 2012. The UCA proposed that the revenue requirement should reflect greater savings because the program started prior to July 1, 2012. However, the UCA's calculation incorrectly adjusted for the change in implementation date. For the purposes of this decision, the Commission accepts the July 1, 2012 implementation date and finds that AUI's calculation of the savings is reasonable.

185. The Commission is cognizant of the circumstances leading up to AUI's re-forecast of six months of 2012 monthly meter reading costs and agrees with the principle that AUI should be able to recover the full 12 months worth of reasonable meter reading costs in future years. However, as explained in paragraph 115 of Decision 2012-237, the Commission did not consider going-in rate adjustments that reflect after-the-fact events to be acceptable:

⁷⁴ Exhibit 16.01, AUI response to AUC-AUI-12.

⁷⁵ Exhibit 23.01.

The Commission considers that each of the individual adjustments to going-in rates except for the those items specifically referred to below are requests to adjust approved 2012 revenue requirements for after-the-fact events or circumstances and are therefore denied. The Commission has confirmed the position taken in Decision 2009-035 that it will not accept adjustments to the going-in rates to account for 2012 actual results. As noted in that decision: “[a]djustments to account for actual results should not be made selectively but, rather, should only be made in the context of a full rate case which would consider the forecast costs for a subsequent time period.”¹²³

¹²³ Decision 2009-035: ENMAX Power Corporation 2007-2016 Formula Based Ratemaking, Application No. 1550487, Proceeding ID No. 12, March 25, 2009

186. The Commission notes that, in Decision 2012-091, it approved AUI’s forecast of \$1,811,600 for 2012 monthly meter reading costs, which represented a full year of forecast costs, and considers that amount should be included in AUI’s going-in rates. However, in light of the subsequent notification by AltaGas regarding the six-month delay in implementation of monthly meter reading, the Commission directs AltaGas to file with the Commission a one-time rate rider application by no later than January 7, 2013, to refund to customers the \$453,000 of monthly meter reading costs not incurred in 2012. The net effect of this refund will be to provide AltaGas with the reduced monthly meter reading costs filed in its compliance application.

187. Making the adjustment through a refund rate rider recognizes that 12 months of costs are included in 2012 base rates as originally approved by the Commission in Decision 2012-091, and therefore 12 months of costs will be reflected in the going-in rates for AltaGas’s PBR plan.

3.34 Other – document management system

188. In paragraph 131 of Decision 2012-091, the Commission directed a reduction of \$189,600 to the \$589,600 document management system forecast cost, although this was not captured in the summary of Commission directions section. AltaGas did not make specific reference in the compliance filing to this approved reduction.

Commission findings

189. In its review of the compliance filing, compliance filing update, and supporting schedules, the Commission has confirmed that the \$189,000 reduction in document management system costs was captured by AltaGas.⁷⁶

190. The Commission approves the \$400,000 document management system costs as reflected in AUI’s compliance filing, compliance filing update and supporting schedules. Accordingly, the Commission finds that AUI has complied with this direction of the Commission.

3.35 Other – 2008-2009 GRA Phase II compliance filing

191. On March 8, 2011, the Commission issued Decision 2011-073, approving AUI’s 2008-2009 GRA Phase II negotiated settlement. The decision included the following Commission direction with respect to finalizing rates for the period 2010 to 2012:

⁷⁶ The removal of the reduction is reflected on line 19 of the following worksheet of the Excel file submitted as Exhibit 24.01, “Rate Base Recon.”

128. AUI included in its settlement application and settlement agreement a provision for any changes to rates made during the period 2010-2012 to be applied on an across the board basis to maintain the same revenue to cost ratio percentages for all billing components of all rate classes, as set forth in the rate design summary included as Appendix A to the settlement. By letter dated July 29, 2010, the Commission indicated its support for this. Also, as indicated above, the Commission supports the continued adherence to the 95 – 105 per cent revenue to cost ratio band and accepts the various trade-offs made and the regulatory, cost of service, rate design and public interest principles as explained by AUI in response to the Commission’s information request. The Commission therefore approves the request to apply any changes to rates made during the period 2010-2012 on an across the board basis in order to maintain the same revenue to cost ratio percentages for all billing components of all rate classes. The Commission considers (see Section 4.3.3 above) this will also provide for regulatory efficiencies, which in the Commission’s view will be in the public interest and therefore directs AUI, once its revenue requirement has been finalized for 2010-2012 in Proceeding ID No. 904, to file an updated COSS for 2010-2012 in a Phase II compliance filing. However, as per Decision 2010-621, the Commission notes that rates for 2010 and a portion of 2011 have already been collected under the current rate design approved in Decision 2007-079. AUI is therefore directed, in its final rate applications for the years 2010 and 2011, to include the reconciliation between the rate design approved in this decision and that in place when the revenues were collected. [Footnote removed]

192. Accordingly, the Commission reminds AltaGas that, with the finalization of its 2010-2012 GRA Phase I revenue requirements, AltaGas is required to file a 2008-2009 GRA Phase II compliance filing updating its COSS study for 2010-2012.

4 Order

193. It is hereby ordered that:

- (1) AltaGas Utilities Inc. shall comply with all Commission directions in this decision.
- (2) Subject to the finalization of the placeholders for reclamation costs associated with the business cases for Tennaco Watts and St. Paul, the revenue requirements for AltaGas Utilities Inc. are approved as follows: 2010 - \$45,909,428, 2011 - \$51,268,110 and 2012 - \$57,548,719.

Dated on November 23, 2012.

The Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Kay Holgate
Commission Member

Appendix 1 – Proceeding participants

| Name of organization (abbreviation) counsel or representative |
|---|
| AltaGas Utilities Inc. (AUI or AltaGas) N. J. McKenzie |
| ATCO Gas R. Trovato A. Green L. Fink |
| Consumers' Coalition of Alberta (CCA) J. A. Wachowich A. P. Merani |
| Office of the Utilities Consumer Advocate (UCA) T. Marriott K. Kellgren R. Daw B. Shymanski R. Bruggeman |

| |
|---|
| The Alberta Utilities Commission |
| Commission Panel M. Kolesar, Vice-Chair K. Holgate, Commission Member |
| Commission Staff V. Stawinski (Commission counsel) P. Howard D. Mitchell |

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 concurs with AUI’s observations about the importance, difficulty and costs that are generally associated with a review of shared services arrangements, and considers that a consultative process before the next review takes place, as proposed by AUI, has merit. The Commission considers that this direction is still outstanding and directs AUI to undertake such a consultative process and review at the time of its next filing where inter-affiliate costs are to be considered, or in the first GRA that AUI files after the end of its PBR plan, whichever comes first..... Paragraph 122
2. The Commission accepts AUI’s submission that the default supply administration fee is more properly a Phase II issue and should therefore be dealt with in AUI’s next Phase II filing. The Commission considers that this direction is still outstanding and the Commission directs that this direction be responded to in AUI’s next Phase II-related regulatory filing. Paragraph 151
3. The Commission notes that, in Decision 2012-091, it approved AUI’s forecast of \$1,811,600 for 2012 monthly meter reading costs, which represented a full year of forecast costs, and considers that amount should be included in AUI’s going-in rates. However, in light of the subsequent notification by AltaGas regarding the six-month delay in implementation of monthly meter reading, the Commission directs AltaGas to file with the Commission a one-time rate rider application by no later than January 7, 2013, to refund to customers the \$453,000 of monthly meter reading costs not incurred in 2012. The net effect of this refund will be to provide AltaGas with the reduced monthly meter reading costs filed in its compliance application. Paragraph 186