



AltaGas Utilities Inc.

2011 Interim Rates

December 24, 2010



ALBERTA UTILITIES COMMISSION

Decision 2010-621: AltaGas Utilities Inc.

2011 Interim Rates

Application No. 1606827

Proceeding ID. 971

December 24, 2010

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1 INTRODUCTION

1. On December 3, 2010 Alta Gas Utilities Inc. (AUI) applied to the Alberta Utilities Commission (AUC or the Commission) for approval of 2011 interim rates effective January 1, 2011 (the Application).
2. On December 6, 2010 the Commission issued a Notice of Application for this proceeding, which was assigned Proceeding ID. 971. Any party who wished to intervene in this proceeding was requested to submit a Statement of Intent to Participate (SIP) by December 15, 2010. The Commission received SIPs from BP Canada Energy Company, the Office of the Utilities Consumer Advocate and the Consumers' Coalition of Alberta (CCA). The CCA raised concerns regarding the Application.
3. The CCA submitted that it would be premature for the Commission to approve the Application. The CCA noted that the Commission expected a material update to AUI's 2010-2012 general tariff application, which sets out AUI's forecast revenue requirement for 2010-2012. The CCA noted that AUI could update this Application after it files its update to its general rate application.
4. AUI responded to concerns raised by the CCA by letter on December 20, 2010, and the CCA by letter date December 21, 2010 indicated that it had no objection to the interim tolls as filed.
5. The Commission considers the record for this proceeding closed on December 21, 2010.

2 BACKGROUND

6. AUI operates under interim rates approved by the Commission in Decision [2010-535](#).¹ There, the Commission continued rates that it first authorized in Decision [2009-038](#).²
7. AUI applied for approval of 2011 interim rates. AUI proposed to base those interim rates on a methodology set out in a negotiated settlement agreement entered into among AUI, the UCA and the CCA. AUI proposed to apply a percentage surcharge to that methodology to

¹ Decision 2010-535: AltaGas Utilities Inc. Interim 2010 Rates Application, November 18, 2010, (Application No. 1606665, Proceeding ID. 889) (Released: November 18, 2010).

² Decision 2010-038: AltaGas Utilities Inc. 2008 Interim Refundable Rates, March 30, 2009, (Application No. 1604826, Proceeding ID. 170) (Released: March 30, 2009).

recover a forecast revenue deficiency for 2011. The negotiated settlement agreement, and methodology set out therein, is currently before the Commission in Proceeding ID. 651.

8. AUI forecasted a 2011 revenue deficiency in the amount of \$14,427,604. To calculate this deficiency AUI used its interim rates approved by the Commission in Decision 2010-535 (\$9,143,206) and added the reduction in 2011 forecast revenue that would occur if the rate methodology set out in the negotiated settlement agreement was used (\$5,284,398).

9. To recover 50 percent of the forecast deficiency (\$7,213,802) AUI proposed the following surcharges:

Rate Class	Surcharge
1/11	17.058%
2/12	17.058%
3/13	17.058%
4/14	11.860%

10. AUI submitted that in order to recover 50 percent of the forecasted deficiency using the interim rates currently in place, a 9.609 percent surcharge would be required. To recover 50 percent of the difference between AUI's 2010 revenue requirement and 2011 revenue requirement (\$3,739,503) provided in the Phase I General Rate Application (GRA) a 7.860 percent surcharge was required on the current interim rates.

3 COMMISSION FINDINGS

11. When evaluating the merits of an interim rates application, the Commission:

- weighs the potential benefits of granting the application – from the perspective of rate stability and minimization of rate shock should the applied-for revenue requirement (in the current GRA) be approved – against the costs that are the basis for the interim rate increase;
- assesses whether the drivers underlying the increase are contentious or non-contentious items; and
- considers the impact the revenue deficiency has on the financial welfare of the utility and on the safety of utility operations.

12. The Commission will weigh these factors in the context of this application and in particular with reference to the following facts:

- AUI's forecast 2011 revenue deficiency is based on a revenue requirement that is currently before the Commission for approval in AUI's Phase I GRA (Proceeding ID. 904); and
- AUI's proposed 2011 interim rates are based on a methodology set out in a negotiated settlement agreement that is currently before the Commission for approval (Proceeding ID. 651).

2011 Forecast Revenue Deficiency

13. The Commission is not persuaded that it should use AUI's 2011 forecast revenue deficiency. AUI's forecast deficiency is based on AUI's forecast 2011 revenue requirement filed in AUI's Phase I general rate application (Proceeding ID 904). That revenue requirement relies on AUI's forecast 2010 revenue requirement as a base year revenue requirement.

14. AUI's 2010 forecast revenue requirement may not be approved as filed. Indeed, AUI's current interim rates make that assumption. When the Commission set AUI's current interim rates the Commission noted that those rates were intended to collect approximately 50 percent of AUI's forecast revenue deficiency for 2010. Part of the rationale for collecting 50 percent of the forecast deficiency in 2010 was to reasonably account for "all, or some portion of, any contentious items" that could be disallowed by the Commission.

15. If the Commission allowed AUI's to use the 2011 forecast revenue deficiency as filed it would ignore the Commission's previous decision on AUI's interim rates as the Commission would ignore the probability that some of the 2010 revenue requirement would not be approved as filed.

16. The Commission considers AUI's forecast difference in revenue requirement between 2010 and 2011 as filed in the Phase I GRA, is a better proxy to determine a 2011 forecast revenue deficiency for the purposes of this application. Accordingly the Commission is of the view that the forecast revenue deficiency for 2011 should be 50 percent of the difference between AUI's 2010 and 2011 forecast revenue requirement (the Revenue Deficiency) or \$3,739,503.

Rate Methodology for Interim Rates

17. The Commission does not accept AUI's use of the proposed rate methodology for the 2011 interim rates at this time. That methodology is based the methodology set out in a negotiated settlement agreement made among AUI, UCA and the CCA. The Commission has not approved that agreement and the methodology set out therein because the Commission's decision on the negotiated settlement agreement is pending. Therefore, the Commission is of the view that the recovery of any forecast revenue deficiency at this time should be done using the current rate methodology. If, however, the Commission approves the toll methodology set out in AUI's negotiated settlement agreement, the Commission conditionally approves AUI to continue collection of the approved interim revenue requirement using the new methodology on the first day of the month following the issuance of a decision. The Commission will provide confirmation of this approval, if appropriate, as part of a decision on the 2009 negotiated settlement agreement (Proceeding ID. 651).

2011 Interim Revenue Requirement

18. When the Commission considers interim rate applications, it does not usually explicitly approve an interim revenue requirement. In this application AUI has applied for a rate surcharge to apply against rates. For reasons discussed above, the approval requested by AUI cannot be granted. The Commission can, however, approve an interim revenue requirement from which the resulting rates can be derived. In this instance, with a reasonable expectation of a change in rate methodology some time in 2011 it would be in the interest of regulatory efficiency to

approve an 2011 interim revenue requirement from which rates can be derived depending on the in effect rate methodology.

19. To determine the appropriate interim revenue requirement for a test year, it is reasonable to use a base year revenue requirement against which the proposed increases are tested. The Commission views the increases for the 2011 interim revenue requirement are captured within the Revenue Deficiency, so what remains is to determine a base year revenue requirement.

20. The Commission considers that the base year revenue requirement should be based on previous Commission decisions. In Decision 2010-535 AUI submitted AUI's 2010 interim rates would result in revenue of \$46,710,551 for 2010. AUI submitted that this revenue would allow AUI to recover approximately 49 percent of the 2010 forecast deficiency. The Commission finds this amount a reasonable proxy as a 2010 base year revenue requirement for the purposes of this application.

21. To this the Revenue Deficiency (\$3,739,503) is added to arrive at a 2011 interim revenue requirement of \$50,450,054. AUI submitted that the 2011 forecast revenue at existing rates is \$47,574,109. As such an additional \$2,875,945 must be recovered through 2011 interim rates. This results in an increase of 6.045 percent on current interim rates.

4 ORDER

22. IT IS HEREBY ORDERED THAT:

- (1) The 2011 Interim Revenue Requirement for AUI is \$50,450,054.
- (2) Effective January 1, 2011 AUI is authorized to increase all rate classes approved in Decision 2010-535 by 6.045 percent.
- (3) If the Commission approves the rate methodology set out in AUI's 2009 negotiated settlement agreement, and subject to confirmation in such decision, AUI shall continue to collect the 2011 Interim Revenue Requirement, pursuant to the methodology set out in AUI's 2009 negotiated settlement agreement, on the first day of the month following the Commission's approval of the methodology.

Dated on December 24, 2010.

ALBERTA UTILITIES COMMISSION

(original signed by)

Bill Lyttle
Commissioner