



AltaGas Utilities Inc.

2009 Interim Refundable Rates

February 11, 2009



ALBERTA UTILITIES COMMISSION

Decision 2009-024: AltaGas Utilities Inc.

2009 Interim Refundable Rates

Application No. 1598641

Proceeding ID. 145

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Fifth Avenue Place, 4th Floor, 425 - 1 Street SW

Calgary, Alberta

T2P 3L8

Telephone: (403) 592-8845

Fax: (403) 592-4406

Web site: www.auc.ab.ca

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**ALTAGAS UTILITIES INC.
2009 INTERIM REFUNDABLE RATES**

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1 INTRODUCTION

1. On December 10, 2008, AltaGas Utilities Inc. (AUI) filed an application (Application) with the Alberta Utilities Commission (AUC or the Commission) requesting approval for interim refundable rates to be implemented February 1, 2009. AUI requested an increase to all delivery rates of 10.065% to recover 50% of the 2009 adjusted revenue deficiency of \$6,909,795 (2009 Adjusted Deficiency). The 2009 Adjusted Deficiency was estimated on the basis of AUI's 2008/2009 Phase 1 General Tariff Application (GTA) Update Filing,¹ adjusted as required to take into account the subsequent change in AUI's rates that took effect November 1, 2008, pursuant to AUC Decision [2008-103](#).²

2. On December 18, 2008, the Commission issued a Notice of Application. Any party wishing to intervene in the proceeding was required to file a Statement of Intention to Participate (SIP) by January 2, 2009. The Office of the Utilities Consumer Advocate (UCA) filed a SIP stating they did not have any objection. The Consumers' Coalition of Alberta (CCA) indicated that it wished to better understand the Application, and submitted questions to the applicant on December 23, 2008. The CCA subsequently submitted a SIP stating that it was not in a position to support the Application and attached the December 23, 2008 questions to its SIP.

3. In light of the concern raised by the CCA with respect to the need for more information regarding the Application, the Commission determined that a short written process was appropriate and on January 13, 2009, established the following schedule to deal with the Application:

AUI Responses to CCA Information Requests	5:00 PM, January 15, 2009
CCA Position on AUI Interim Rates Application	5:00 PM, January 20, 2009
AUI Response to CCA Position	5:00 PM, January 23, 2009

4. The Commission considers the record for the proceeding closed on January 23, 2009.

¹ AUI 2008/2009 GTA Phase 1 Application - No. 1579247/ID 88, Forecast Update Filing, dated October 10, 2008

² AUC Decision 2008-103 – *AltaGas Utilities Inc. 2007 Deficiency Rider, Interim Refundable Rates and Standard Contribution – Rural Other* (Application 1575162/ID 64) (Released: October 21, 2008)

2 DETAILS OF THE APPLICATION

5. In the Application, AUI referenced Alberta Energy and Utilities Board (EUB or the Board) Decision 2007-110³ where the Board identified various factors it employed when evaluating an application for an interim rate increase:

These factors can be grouped into two categories, those that relate to the quantum of, and need for, the rate increase and those that related to more general public interest considerations.

Quantum and need factors are those which relate to the specifics of the requested rate increase and include:

- The identified revenue deficiency should be probable and material
- All or some portion of any contentious items may be excluded from the amount collected
- Is the increase required to preserve the financial integrity of the applicant or to avoid financial hardship to the applicant?
- Can the applicant continue safe utility operations without the interim adjustment?

If all or a portion of the suggested rate increase appears appropriate after a consideration of the quantum and need factors, the Board must assess certain general public interest factors to see if a rate increase is justified, these include:

- Interim rates should promote rate stability and ease rate shock
- Interim adjustments should help to maintain intergenerational equity
- Can interim rate increases be avoided through the use of carrying costs
- Interim rate increases may be required to provide appropriate price signals to customers
- It may be appropriate to apply the interim rider on an across-the-board basis.

The Board recognizes that the above listed considerations may be given different weighting depending on the specific circumstances surrounding each application. The Board has considered the above factors in its deliberations.

6. Previous Board Decisions that also identified these factors include EUB Decision 2007-105⁴ and EUB Decision 2005-099.⁵ These factors were also recently discussed in the Commission's Decision 2008-120.⁶ AUI addressed these factors in its Application and submitted that the Application met the requirements identified in EUB Decision 2007-110 and in prior Decisions.

7. As noted above, AUI proposed to apply an across the board increase of 10.065%, to the base fixed charge, default supply provider administration fee, variable base energy charge, and

³ EUB Decision 2007-110 – *ATCO Pipelines 2008 Interim Rates* (Application 1547779) (Released: December 20, 2007)

⁴ EUB Decision 2007-105 – *ATCO Gas 2008 Interim Rates* (Application 1544977) (Released: December 19, 2007)

⁵ EUB Decision 2005-099 – *ATCO Gas 2005-2007 General Rate Application/Interim Rates Application* (Application 1404168) (Released: August 29, 2005)

⁶ Decision 2008-120 – *ATCO Pipelines 2008-2009 Revised Interim Rates* (Application 1584560/ID 98) (Released: November 21, 2008)

demand charge to all AUI open rate classes identified below in Table 1. AUI proposed that charges for Rate 6 – Standby, Peaking, and Emergency Service customers would continue to mirror the charges of Rates 3 and 13.

Table 1. AUI Rate Classes

Rate	Description
Rate 1	Small General Service
Rate 2	Large General Service (Optional)
Rate 3	Demand/Commodity General Service (Optional)
Rate 4	Irrigation Pumping Service (Optional)
Rate 11	Small General Service for Retailer
Rate 12	Large General Service (Optional) for Retailer
Rate 13	Demand/Commodity General Service (Optional) for Retailer
Rate 14	Irrigation Pumping Service (Optional) for Retailer

8. AUI provided the following calculation of the 2009 Adjusted Deficiency and proposed rate adjustment of 10.065%, which would result in collection of \$3,454,898.

Table 2. AUI Calculation of Proposed 2009 Interim Refundable Rate Adjustment

Line	Description	Amount (\$)
1	2009 deficiency before tax per Oct. 10, 2008 Update Filing	9,392,338
2	2009 revenue increase due to 2007 interim rates (Decision 2008-103)	2,482,543
3	2009 Adjusted Deficiency (Line 1 minus Line 2)	6,909,795
4	Proposed recovery via 2009 interim rates adjustment (50% of Line 3)	3,454,898
5	Total forecast 2009 distribution revenues at 2007 interim (existing) rates	34,326,899
6	Proposed recovery via 2009 interim rates adjustment (Line 4 divided by Line 5)*	10.065%

* On an annualized basis

9. AUI proposed to essentially use the same approach that was approved by AUC Decision 2008-103. AUI indicated that the only difference in this Application was that the calculation of the interim rates adjustment was based on an unapproved forecast rather than an approved revenue deficiency, and that AUI has only requested 50% of the deficiency be included in the interim rates. AUI submitted that other interim rates adjustments have been based on unapproved revenue requirements in prior decisions for Centra Gas Alberta Inc.,⁷ ATCO Gas,⁸ and ATCO Pipelines.⁹ AUI further submitted that all but the Centra Gas Alberta Inc. application incorporated across-the-board percentage rate increases.

10. AUI also included in the Application tables showing:

- a reconciliation of the 2009 revenue increase due to 2007 interim rates per Decision 2008-103,

⁷ Public Utilities Board, Alberta Decision E91067, *Centra Gas Alberta Inc., Interim Rates Application* (Released: August 28, 1991)

⁸ EUB Decision 2002-115 – *ATCO Gas Interim Rates Application* (Released: December 24, 2002); EUB Decision 2005-099 – *ATCO Gas Interim Rates Application* (Released: August 29, 2005); AUC Decision 2007-105, *ATCO Gas 2008 Interim Rates Application* (Released: December 19, 2007)

⁹ EUB Decision 2007-110 – *ATCO Pipelines 2008 Interim Rates* (Application 1547779) (Released: December 20, 2007)

- a summary of the proposed interim rates calculated by applying the general percentage increase of 10.065% to existing rates, and
- examples of the annual impact of the 2009 interim refundable rates across various levels of consumption and customer categories.

3 DISCUSSION OF ISSUES

11. The CCA argued that AUI's interim rates application should be denied and provided a number of reasons why, including those expressly addressed below. AUI replied that the CCA was objecting to both interim rates *per se* and the long-established test adopted by the AUC for interim rates applications, which test, AUI submitted, was the basis used in the Application.

12. Detail discussion follows for several specific topics raised during the proceeding.

3.1 Percent Recovery of 2009 Revenue Deficiency with Proposed Interim Rates

13. The CCA argued that AUI was seeking recovery of 63.2% of its projected revenue deficiency. The CCA arrived at this conclusion by (see Table 2 above) adding the amounts from Lines 2 and 4 and dividing that sum by Line 1: $((2,482,543 + 3,454,898) / 9,392,338) \times 100 = 63.2\%$.

14. AUI disagreed with the CCA's calculation, and considered that it was based on the notion that the 2007 rates currently in effect were based on an unapproved revenue requirement. However, AUI pointed out that the 2007 rates were based on a final approved revenue requirement for 2007.¹⁰ AUI argued that it had correctly treated the effect of the 2007 interim rates as an increase in the forecast 2009 revenue at existing rates, and that it was inappropriate for the CCA to include the increase in forecast 2009 revenue as an addition to the 2009 revenue deficiency in its calculations. As such, AUI considered that it had followed the accepted approach to calculating a deficiency by taking the difference between forecast revenue at existing rates and forecast revenue requirement for the 2009 test year.

3.2 Contentious Issues

15. The CCA submitted that, in addition to Inter-Affiliate Shared Costs, there appeared to be a number of other significant issues associated with capital and O&M costs, salaries and wages, lead-lag study, deferral accounts for tax rate changes, and the application of the Canderel and Rainbow tax cases which were untested and therefore remain contentious. Given the scope of these issues, the CCA considered that the requested rate increase should be denied.

16. AUI considered that it had addressed the untested issues listed by the CCA by requesting only 50% of the deficiency in the proposed interim rates. AUI further submitted that an interim rates application was not the appropriate forum to review details of issues that will be fully tested in AUI's current 2008-2009 General Rate Application.

3.3 Rate Stability and Rate Shock

17. The CCA argued that AUI customers recently (effective November 1, 2008) received a rate increase of 7.214% and that AUI proposed to implement a further 10.065% increase

¹⁰ AUC Decision [2008-032](#), AltaGas Utilities Inc. 2007 General Rate Application Phase I Refiling, (Application 1556301) (Released: April 30, 2008)

effective February 1, 2009, which, if approved, would represent a total increase over a period of three months of 17%. The CCA considered this was a clear case of rate shock and that the frequent rate increases had not resulted in rate stability and was not desired by utility customers.

18. AUI disagreed with the CCA's position on rate shock, submitting that any discussion of rate shock must take into account that AUI had been subsidizing customers over most of 2008 while its 2005/2006 rates were still in place. Only in November of 2008 were AUI's rates adjusted to a level consistent with AUI's 2007 approved revenue requirement.

19. AUI submitted that rate stability does not mean rates should never change. AUI stated that its approach has been to temper rate increases to the extent possible by taking a gradual approach to rate increases. AUI stated that the greatest rate stability will be achieved by granting AUI the requested interim rates increase so that rates do not spike significantly after the GRA.

4 VIEWS OF THE COMMISSION

20. When evaluating the merits of an interim rates application, the Commission must weigh 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 rates increase, whether they be contentious or non-contentious items, and the impact the revenue deficiency has on the financial welfare of the utility and on the safety of utility operations. In Decision 2005-099, the Board noted the various factors it employed when evaluating an application for an interim rates increase and grouped the factors into two categories: those relating to the quantum of, and need for, the rate increase and those that relate to more general public interest considerations.

Quantum and Need Factors

21. As quoted above:

Quantum and need factors are those which relate to the specifics of the requested rate increase and include:

- The identified revenue deficiency should be probable and material
- All or some portion of any contentious items may be excluded from the amount collected
- Is the increase required to preserve the financial integrity of the applicant or to avoid financial hardship to the applicant?
- Can the applicant continue safe utility operations without the interim adjustment?

22. In Decision [U96047](#),¹¹ the Board stated:

Interim rates are generally intended to provide some relief from the detrimental effects of lengthy proceedings on the applicant's financial position and/or to lessen any rate shock which may result from final disposition of an application. The Board also notes that interim rate determinations are, by their nature, expeditious and made on the basis of prima facie evidence which is not fully tested.

¹¹ Decision U96047, *NOVA Gas Transmission Ltd. 19966 Interim Rate Application* (Released: May 8, 1996), page 4

23. The Commission considers that AUI's forecast 2009 Adjusted Deficiency of \$ 6,909,795 is material. The Commission also considers that, on a *prima facie* review, AUI's request to collect 50% of the 2009 Adjusted Deficiency adequately takes into account the quantum associated with contentious issues.

24. With respect to the issues raised by the CCA, the Commission notes that the AUI 2008-2009 GTA, which is currently in progress, is the appropriate venue for parties to fully test all contentious items. It also notes that in the event of any over-collections using interim rates, that difference would be refunded to customers at a later date.

25. Further, the Commission is not persuaded by the argument presented by the CCA that AUI is actually seeking recovery of 63.2% of the projected 2009 Adjusted Deficiency. The Commission finds that AUI has followed the accepted approach to calculating the 2009 Adjusted Deficiency by taking the difference between forecast revenue at existing rates and forecast revenue requirement for the 2009 test year. AUI's 2007 rates are based on a final approved revenue requirement for 2007 and AUI has correctly treated the effect of the 2007 interim rates as an increase in the forecast 2009 revenue at existing rates. On this basis the Commission considers that the quantum factor for interim rates is justified.

26. AUI noted it would continue safe operations without the proposed rate increase. With respect to the issue of financial hardship, AUI indicated that the 2009 Adjusted Deficiency of \$6,909,795 is not included in working capital and will result in additional financing costs of almost \$0.5 million and that this could cause financial hardship to the utility. While these assertions are untested, the Commission does consider it advisable in the interests of both ratepayers and AUI that unnecessary financing costs be minimized. On this basis the Commission considers that there is a need factor associated with this interim rates application.

27. Based on the above assessment of the quantum and need factors, the Commission considers it would be appropriate to award some level of interim rates to AUI.

General Public Interest Factors

28. As quoted above, the General Public Interest Factors include:

- Interim rates should promote rate stability and ease rate shock
- Interim adjustments should help to maintain intergenerational equity
- Can interim rate increases be avoided through the use of carrying costs
- Interim rate increases may be required to provide appropriate price signals to customers
- It may be appropriate to apply the interim rider on an across-the-board basis.

29. The EUB made the following statement in Decision [2002-115](#):¹²

An interim rate increase aimed at recovering a portion of any shortfall that is ultimately demonstrated and approved provides for a leveling out of the impact of any final rate increase, thereby promoting rate stability and easing any rate shock to customers at a later date.¹³

¹² EUB Decision 2002-115 – *ATCO Gas 2003/2004 General Rate Application* (Application 1284374) (Released: December 24, 2002)

¹³ EUB Decision 2002-115, page 10

30. The Commission agrees with the above statement.
31. While the Commission is in the process of assessing the merits of AUI's 2008-2009 GRA application, the Commission considers that the following statement from AUI has merit:
- AUI's proposal will help limit the impact of general rate increases resulting from the 2008/2009 GTA and will therefore mitigate rate shock for customers. Interim rates will also lessen the magnitude of a future deficiency rider when final rates are approved.¹⁴
32. The Commission is mindful of the CCA's concerns with respect to rate stability and rate shock and recognizes that there may be up to three increases¹⁵ to AUI's rates over the course of about 12 months. However, the Commission considers that this will result in a more desirable price signal being sent to consumers and that intergenerational inequity and rate shock are minimized when rates are directionally aligned with the cost of services that are being provided.
33. On this basis the Commission considers that AUI's Application meets the general public interest factors and should be approved. The Commission approves an interim rate increase which would have the effect of recovering 50% (\$3,454,898) of AUI's forecast 2009 Adjusted Deficiency, to be implemented on March 1, 2009, in an across the board fashion. Given that the proposed effective date in the Application was February 1, 2009, AUI is directed to provide rate schedules by February 18, 2009, that reflect the approved effective date of March 1, 2009. The Commission recognizes that the interim rates will therefore be slightly higher than illustrated in the Application, but considers that this result is acceptable for the reasons discussed above.
34. These interim rates should not be construed as precluding any rate design matter that would normally be covered in a Phase II proceeding, such as AUI's base fixed charge which the CCA specifically referred to in its argument, from review and change in a future AUI Phase II proceeding.

¹⁴ AUI 2009 Interim Refundable Rates Application, Application No. 1598641, dated December 10, 2008, page 4

¹⁵ 1) AUC Decision 2008-103, *AUI 2007 Deficiency Rider, Interim Refundable Rates and Standard Contribution – Rural Other* (Released: October 21, 2008); 2) AUI 2009 Interim Refundable Rates Application No. 1598641 (current application); 3) AUI 2008/2009 GTA Phase 1 Application - No. 1579247/ID 88, dated July 14, 2008 and Forecast Update Filing, dated October 10, 2008, currently in progress

5 ORDER

35. IT IS HEREBY ORDERED THAT:

- (1) AltaGas Utilities Inc. is authorized to recover 50% of its forecast 2009 Adjusted Deficiency, calculated to be \$3,454,898, using interim rates effective March 1, 2009, to be applied across all open rate classes as described in the Application, subject to the filing of interim rate schedules by February 18, 2009.

Dated in Calgary, Alberta on February 11, 2009.

ALBERTA UTILITIES COMMISSION

(original signed by)

Anne Michaud
Chair

(original signed by)

N. Allen Maydonik, Q.C.
Commissioner

APPENDIX 1 – PROCEEDING PARTICIPANTS

Name of Organization (Abbreviation) Counsel or Representative (APPLICANTS)
AltaGas Utilities Inc. (AUI) R. Jeerakathil R. Koizumi J. Coleman
Consumers' Coalition of Alberta (CCA) J. Wachowich A. Merani
Office of the Utilities Consumer Advocate (UCA) J. A. Bryan R. Bruggeman

Alberta Utilities Commission Commission Panel A. Michaud, Chair A. Maydonik, Commissioner Commission Staff V. Slawinski (Commission Counsel) P. Howard M. McJannet C. Burt
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