



AltaGas Utilities Inc.

2007 General Rate Application Phase I Refiling

April 30, 2008



ALBERTA UTILITIES COMMISSION

Decision 2008-032 AltaGas Utilities Inc.
2007 General Rate Application Phase I Refiling
Application No. 1556301

April 30, 2008

Published by

Alberta Utilities Commission
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1 INTRODUCTION

On December 11, 2007 the Alberta Energy and Utilities Board (Board) issued Decision [2007-094](#),¹ which dealt with Phase I of the AltaGas Utilities Inc. (AUI) 2007 General Rate Application (GRA). In Decision 2007-094, page 62, the Board issued the following direction:

The Board directs AUI to revise its 2007 GRA Phase I to reflect the Board's findings, conclusions and directions in this Decision and to refile the amended GRA by January 18, 2008. The Board expects AUI in its Refiling to provide a summary of all adjustments made, including details of any associated impact on NWC, taxes, depreciation, or any other related areas.

Intervenors wishing to comment on AUI's Refiling should file a submission with the Board by February 1, 2008.

AUI submitted its refiling (Refiling) on January 18, 2008 to the Alberta Utilities Commission (Commission), the successor to the Board.

By letter dated January 22, 2008, the Commission extended the deadline for comments on the Refiling to February 5, 2008. Comments on the Refiling were received from the Consumers Coalition of Alberta (CCA) and the Alberta Urban Municipalities Association and Office of the Utilities Consumer Advocate (AUMA/UCA). Reply comments were received from AUI on February 12, 2008.

In reviewing the reply comments from AUI, the Commission considered additional information was required from AUI with respect to the reconciliation of the capital additions shown in Schedule 2.3.1 of the Refiling with the capital additions for capital cost allowances shown in Schedule 10.1.1 of the Refiling. By letter dated April 17, 2008, the Commission directed AUI to file this information by April 18, 2008. The AUMA/UCA and CCA were provided with an opportunity to comment on this additional information by April 24, 2008.

For purposes of this proceeding, the Commission considers that the record closed on April 24, 2008. The Commission panel assigned to deal with the Refiling consisted of Ms. C. Dahl Rees, LL.B.

¹ Decision 2007-094 – AltaGas Utilities Inc. 2007 General Rate Application Phase I (Application No. 1494406) (Released: December 11, 2007)

2 SUMMARY OF THE REFILING

AUI provided the following summary of the applied-for revenue requirement for 2007 and reconciliation of the revenue requirement including the forecast shortfall. The amounts were amended to reflect the amounts approved by the Board in Decision 2007-094 and to reflect the new rates approved for AUI in Decision [2007-079](#),² effective November 1, 2007.

Table 1. Summary of Applied-for Revenue Requirement

	2007 Forecast Filing	2007 Update Filing ³	2007-094 Compliance Refiling
Operating, Maintenance and Administration Expense	21,827,000	21,982,300	20,479,293
Depreciation Expense	9,324,395	9,330,125	9,330,125
Amortization of CIAC	(2,186,600)	(2,219,526)	(2,219,526)
Municipal Taxes	63,600	63,600	63,600
Income Taxes	1,329,230	1,300,530	895,786
Cost of Debt	3,528,416	3,529,452	3,521,652
Return on Equity	3,647,918	3,648,990	3,640,925
Total Revenue Requirement	<u>37,533,959</u>	<u>37,635,471</u>	<u>35,711,855</u>
<u>Reconciliation of Revenue Requirement</u>			
Delivery Revenue, Existing Rates	32,124,969	32,395,198 ¹	32,150,137 ¹
Other Revenue	1,267,600	1,266,296	1,275,528
Total Revenue, Existing Rates	<u>33,392,569</u>	<u>33,661,494</u>	<u>33,425,665</u>
Revenue Deficiency (Excess)	<u>4,141,389</u>	<u>3,973,991</u>	<u>2,286,190</u>
Total Revenue Requirement	<u>37,533,958</u>	<u>37,635,485</u>	<u>35,711,855</u>

¹ The 2007-094 Delivery Revenue have been updated to incorporate Directive 21 from Decision 2007-094 and Decision 2007-079 that approved new rates for AUI, effective November 1, 2007.

3 COMPLIANCE WITH BOARD DIRECTIONS IN DECISION 2007-094

The Commission notes that both the CCA and UCA/AUMA considered that AUI had generally complied with the Board directions in Decision 2007-094. The Commission has reviewed AUI's responses to the Board directions that were responded to in the Refiling (as contained in [Appendix 2](#) of this Decision) and is satisfied that the Refiling adequately addresses and responds to those directions. Accordingly, the Commission accepts AUI's responses to these directions as set out in the Refiling, and considers that the resulting revenue requirement amount of \$35,711,855 is reasonable and should be approved.

² Decision 2007-079 – AltaGas Utilities Inc. 2005/2006 General Rate Application Phase II (Application 1491262) (Released: October 16, 2007)

³ AUI filed a 2007 Forecast Update Package on April 27, 2007.

For convenience, the Commission has included in [Appendix 3](#) of this Decision, directions from Decision 2007-094 that will be addressed in AUI's next GRA. The Commission notes that the CCA reviewed a number of these directions and agreed that they should be addressed in AUI's next GRA.

The CCA and AUMA/UCA identified areas of the Refiling that required further explanation. The Commission will address the issues raised by the CCA and AUMA/UCA in the subsections that follow.

4 DISCUSSION OF ISSUES RAISED BY CCA AND UCA/AUMA

4.1 CCA Concerns with Capital Additions for Income Taxes

The CCA noted that capital additions for income tax purposes reported in Schedule 10.1.1 of the Refiling was \$13,015,122, however, in the 2007 Update Filing, the amount was shown as \$12,454,900, representing an increase of \$560,222 in the Refiling. With respect to the \$560,222, the CCA noted the following issues:

1. The \$560,222 increase does not tie in with the increase of \$195,870 in capital additions shown on Schedule 2.3.1 [13,593,838 per Compliance Refiling Schedule 2.3.1 (page 2 of 2), and \$13,397,968 per 2007 Update Schedule 2.3.1, (page 1 of 2)].

We also note from a review of Schedule 3 of the Compliance Refiling the total of the hearing adjustments plus the adjustments flowing from Decision 2007-094 amounts to some \$689,400 [\$301,600 plus \$387,800]. However, this increase from the Update Filing [X002-06-01] relates to capital expenditures, not capital additions which are the subject of UCC Schedule 10.1.1. AUI therefore needs to provide a reconciliation of the delta in capital expenditures to capital additions reported on Compliance Refiling Schedules 2.3.1 and 10.1.1.

2. There is no support for how the delta in capital additions reported for tax purposes is allocated as between UCC classes. AUI therefore needs to provide support for the allocation of capital additions as between the various UCC classes and provide evidence such allocation is consistent with that used in the 2007 Update Filing Schedule 10.1.1⁴

In additional reply comments dated April 24, 2008, the CCA noted that AUI had overstated capital additions for capital cost allowance, and that based on a review of AUI's April 18, 2008 response, capital additions in Refiling Schedule 2.3.1 did not reconcile with capital additions for capital cost allowance in Refiling Schedule 10.1.1. However, the CCA considered that since the impact on the 2007 revenue requirement was immaterial, no further action was required.

AUI provided Schedule B in its reply comments, to reconcile the change in forecast capital additions with the change in forecast capital expenditures. AUI noted that there was a discrepancy between the net increase of \$195,870 in plant in service and the increase of \$560,222 per Schedule 10.1.1 of the Refiling. Using the information provided in Schedule DIR10.1 from the Refiling, calculations in lines 20 through 29 of Schedule B indicated that the

⁴ CCA Comments on Refiling dated February 1, 2008, p. 4

increase in capital cost additions for tax purposes should have been less, by approximately \$183,600. In its April 18, 2008 submission, AUI provided a Schedule titled “Reconciliation of Plant in Service Additions to UCC Additions for Tax Purposes” (April 18 Reconciliation), listing the adjustments to capital additions to arrive at the capital additions for capital cost allowances.

Commission Findings

The Commission considers that the issue raised by CCA is the reconciliation of the capital additions amount of \$13,593,838 as shown on line 53 of Schedule 2.3.1 page 2 of 2 of the Refiling with the capital additions for capital cost allowances of \$13,015,122 as shown on line 19 of Schedule 10.1.1 of the Refiling, which results in a difference of \$578,716.

The Commission notes that Schedule B indicates that the capital cost additions for tax purposes was overstated by \$183,600. AUI provided its April 18 Reconciliation, which built on Exhibit 002-09 (AUI response to CCA-AUI-47(a)⁵) by incorporating the adjustments that were made in the Refiling, and included the overstated capital cost additions for tax purposes of \$183,600 as shown in Schedule B, to reconcile capital additions and capital additions for capital cost allowances. The Commission agrees with the CCA that the unreconciled amount of \$183,600 has minimal impact on revenue requirement, and as such no further action is required with respect to these amounts. Therefore, the Commission is satisfied with the amounts shown in Refiling Schedule 10.1.1 for capital additions for capital cost allowances and Refiling Schedule 2.3.1 for capital additions.

4.2 AUMA/UCA Concerns with Capital Additions

The AUMA/UCA indicated that it was not able to reconcile the difference in capital additions of \$195,870 between Schedule 2.3.1 of the 2007 Update Filing and Schedule 2.3.1 of the 2007 Refiling. AUMA/UCA considered that AUI should be directed to provide plant continuity, accumulated depreciation and rate base schedules that correspond to the 2007 Update Filing and a reconciliation of Schedule 2.3.1 from the Refiling.

In its reply comments of February 12, 2008, AUI provided Schedule A, which included references within the Excel file linking the adjustments to their original sources and reconciling capital expenditures (and cost of removal) to gross plant (and cost of removal). Schedule A presented information from the original GRA proceeding and the Refiling in a different format to illustrate the composition of the capital expenditure adjustments.

Commission Findings

The Commission notes that the amount for capital additions shown in Schedule 2.3.1 of the Refiling increases by \$195,870 to \$13,593,838, compared to the amount of \$13,397,968 as shown in Schedule 2.3.1 of the 2007 Update Filing. Examining plant in service, as shown on line 7 of Schedule A, the first adjustment, an increase of \$575,900 was documented in Exhibit 009-003 (the August 2007 v.2 hearing update⁶). The second adjustment, a decrease of \$380,100, was related to the Board directions from Decision 2007-094, which gave rise to the Refiling.

⁵ AUI provided a reconciliation of capital additions to capital additions for capital cost allowances based on Schedule 2.3.1 and Schedule 10.1.1 in the original Application.

⁶ AUI filed a 2007 Forecast Update – v.2 during the hearing on August 8, 2007

The Commission also notes that Schedule A recasts the capital expenditures and cost of removal into plant in service, construction work-in-progress, cost of removal, and transfer shown as cost of removal categories, providing greater transparency into AUI's cost components.

Based on this information, the Commission is satisfied with the amount of the increase in net plant in service. Therefore, the Commission accepts AUI's Refiling of Schedule 2.3.1 for plant continuity.

5 ORDER

IT IS HEREBY ORDERED THAT:

- (1) The 2007 revenue requirement amount of \$35,711,855, as shown in Table 1 of this Decision, is approved.

Dated in Calgary, Alberta on April 30, 2008.

ALBERTA UTILITIES COMMISSION

(original signed by)

Carolyn Dahl Rees
Commissioner

APPENDIX 1 – HEARING PARTICIPANTS

Name of Organization (Abbreviation) Counsel or Representative (APPLICANTS)	Witnesses
AltaGas Utilities Inc. (AUI or AltaGas) C. K. Yates	
Alberta Urban Municipalities Association and Office of the Consumers Advocate (AUMA/UCA) J. A. Bryan, Q.C.	
Consumers Coalition of Alberta (CCA) J. A. Wacowich	

Alberta Utilities Commission Commission Panel C. Dahl Rees, LL.B., Commissioner Board Staff S. Wakil (Board Counsel) C. Burt	
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APPENDIX 2 – BOARD DIRECTIONS RESPONDED TO IN THE REFILEING

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1. No parties objected to AUI’s 2007 forecast CIAC and depreciation expense for 2007. Upon review, the Board considers AUI’s forecast CIAC and its depreciation methodology and resulting expense is appropriate. Therefore the Board approves AUI’s forecast depreciation expense and CIAC as filed. Given the various revisions and updates to the Application, the Board directs AUI in the Refiling, to provide updated schedules that reflect all revisions and Board findings. 4
6. No party objected to AUI’s new business forecast, beyond AUMA/UCA noting the costs of rural mains should be reduced by \$71,800 in accordance with Exhibit 09-010. Having reviewed Exhibit 09-010, the Board agrees with both AUI and the AUMA/UCA that rural mains should be reduced by \$71,800. Therefore, the Board directs AUI, in its Refiling, to reduce its 2007 forecast of rural mains by \$71,800..... 11
8. Based on the number of updates and revisions to system betterment capital expenditures and other costs items within AUI’s revenue requirement, the Board directs AUI in the Refiling to update all capital expenditure schedules to reflect the findings within this Decision and the updated evidence on the record in this proceeding..... 14
10. The Board has reviewed AUI’s forecast general plant capital expenditures and determined that the forecast appears to be reasonable. Based on the number of updates and revisions to capital expenditures and other cost items within AUI’s revenue requirement, the Board directs AUI in the Refiling to update all schedules to reflect all findings within this Decision and the updated evidence on the record in this proceeding. 14
11. While AUI referred to its revenue lag study that involved 32,000 of its customers, it did not file this study in order to allow it to be reviewed and tested in this proceeding. AUI considers revenue lag to be a subjective utility specific attribute, and stated that its previously approved revenue lag was erroneous. Referencing the study, but not filing it as evidence in this proceeding, does not persuasively demonstrate to the Board that the updated analysis has corrected a previous error, particularly if any measure of subjectivity is involved. 17
12. The Board agrees that customers would tend to pay bills close to the stated due date but is not convinced that AUI has adequately substantiated the cause for the bill delivery to customers to increase from 16.5 days to 20.8 days. The Board therefore denies AUI’s request for the proposed increases in its revenue lag to 41.6 days. The Board directs AUI in its Refiling, to use the previously approved revenue lag of 37.3 days for purposes of determining NWC for the 2007 test year. 17
13. With regard to the arguments made by the parties regarding ATCO Gas’s revenue lag, in making its determination, the Board did not consider that the circumstances involving ATCO Gas were readily comparable with those of AUI and therefore gave no weight to ATCO Gas’ revenue lag. 17
14. For purposes of forecasting, the Board finds the due date of the municipal taxes to be the appropriate lag time to be reflected in the revenue requirement. The Board will therefore accept the CCA’s recommendation to reduce the net lag period for municipal taxes by

- three days. The Board notes that AUI was not opposed to this reduction. Therefore the Board directs AUI, in its Refiling, to use a net lag period of 41.6 days to determine NWC associated with municipal taxes.18
15. The Board notes that the EUB Special Deposits were previously approved as a component of NWC in Decision 2005-127 and agrees with AUI that their inclusion in NWC remains appropriate. However, the Board considers that fairness dictates any interest earned on those deposits should also be taken into consideration by AUI. Therefore, the Board directs AUI, in its Refiling, to include its estimate of the interest to be earned on the EUB Special Deposits as a revenue offset.....19
16. The Board notes that AUI updated the forecast costs for its 2007 Phase I GRA to approximately \$362,000, for inclusion in its deferred regulatory account. The Board also notes that these costs are significantly in excess of the amounts, incurred for its 2005-2006 Phase I GRA. While the Board is not convinced that it should disallow AUI's forecast costs for the 2007 Phase I GRA in the amounts as submitted by AUMA/UCA, the Board considers that the amount to be included in the deferred regulatory account should be reduced. For purposes of the Application, the Board considers that AUI's original forecast costs of \$239,500 would be an appropriate amount to include in the deferred regulatory account. Therefore the Board directs AUI in the Refiling to use the amount of \$239,500 for the 2007 Phase I GRA costs in its deferred regulatory account and to reflect that amount and the related amortization in its Refiling. The Board notes that all actual hearing costs, which may be in excess of the forecast amounts, are subject to Directive 31B, and expects AUI to demonstrate to the Board's satisfaction in the cost claim process that its costs have been prudently incurred.22
17. The Board also finds that AUI has not demonstrated that the costs respecting the R&V Application are reasonable for recovery during the 2007 test period. Accordingly, the Board disallows these costs. The Board directs AUI, in its Refiling application, to remove from AUI's deferred regulatory account the amount of \$75,800 incurred or forecast in respect of its R&V Application and to adjust its revenue requirement to reflect the reduced amortization of deferred regulatory costs resulting from the disallowed costs. ...22
18. Further the Board directs AUI in its Refiling to provide a reconciliation of its deferred regulatory account setting out the details of amounts forecast, amounts actually incurred, with reference to any related cost claims approved by the Board, and amounts disallowed between the previously approved forecast balance at December 31, 2006 and the revised balance at December 31, 2007.23
19. The Board observes that AUI indicated that it expects its CEO/CFO certification costs to be reduced dramatically, to an estimated level in the range of \$25,000 to a \$50,000 maximum, starting in 2008. The Board approves AUI's reconciliation of its 2005 and 2006 CEO/CFO certification costs for 2005 and 2006 and approves AUI's forecast for those costs in 2007.....26
20. The Board notes that AUI was not opposed to amortizing the balance of \$844,200 at December 31, 2006 and the additional forecast amounts of \$620,600 for 2007 through 2009, as recommended by AUMA/UCA. The Board considers that the longer amortization period is reasonable under the circumstances given the amount of costs incurred by AUI. Therefore, the Board directs AUI, in its Refiling, to provide for the amortization of those costs in its CEO/CFO certification cost deferral account uniformly

- over the period 2007 through 2009 and to file a reconciliation of the forecast 2007 costs with the amounts actually incurred.....26
21. Therefore the Board directs AUI in the Refiling to use the five-year trend analysis in projecting annual usage forecasts for Residential, Commercial, Rural and Large General Service customers.....28
23. Given the above, the Board finds AUMA/UCA’s recommendation to update the slippage vacancy rate to 2.0 FTEs, to be excessive. However, based on the lack of clarity as to the two positions being deferred, the Board considers that it would be appropriate to increase the slippage rate by 1.5 FTEs. Therefore, the Board directs AUI in its refiling to reduce salary expense by \$84,375 and capitalized salary costs by \$28,125 to reflect an increase in the slippage vacancy rate by 1.5 FTEs, bringing the approved vacancy rate to 4.5 FTEs.....31
24. The Board considers that an appropriate vacancy rate would fall somewhere between the 2.3 FTE and 5.0 FTE frictional vacancy rates proposed by AUI and AUMA/UCA respectively. Given the 2006 FTE frictional vacancy rate of 3.9, the Board considers this to be a more realistic indicator for 2007, given the continued nature of Alberta’s employment economy. Therefore the Board directs AUI in its Refiling to reduce total salary expense to reflect a frictional vacancy rate of 3.9 FTEs.32
25. Therefore the Board directs AUI in its refiling to reduce the President’s STIP by a total of 36.7%, consisting of a 16.7% reduction for individual goals, in addition to the existing reduction of 20% for financial integrity (which AUI has already excluded from its forecast). Further, the Board directs AUI to reduce the Vice Presidents’ STIP by a total of 36%, consisting of a 20% reduction for individual goals, in addition to the existing reduction of 16% for financial integrity (which AUI has already excluded from its forecast).....35
26. In addition, the Board directs AUI in the Refiling to provide an updated table similar to table in AUMA/UCA-AUI-10(b) that illustrates the changes to STIP.35
28. The Board considers that the potential exists for not all of the STIP amounts to be paid out. In such a circumstance, shareholders would benefit at the expense of ratepayers. To mitigate this potential, the Board considers that it would be appropriate for AUI to establish a deferral account to capture any differences between the Board-approved STIP amounts, and amounts actually paid out. Therefore, the Board directs AUI to establish a deferral account to capture the difference between the total STIP paid out and the Board approved amount. The disposition of any balance in this account shall be determined in future GRAs.35
29. Therefore, the Board directs AUI in its Refiling to reduce its maintenance contract expense forecast by \$26,600.37
30. Accordingly, the Board directs AUI in the Refiling to include its 2005 and 2006 GUA audit costs associated as part of AUI’s deferred regulatory costs. The Board further directs AUI in its Refiling to provide a reconciliation of its 2005 and 2006 GUA audit costs setting out the details of amounts forecast and amounts actually incurred and to reflect the increased amortization of deferred regulatory costs resulting from the inclusion of these GUA audit costs. Additionally, the Board directs AUI, in its Refiling and in future GRAs, to identify and reconcile all costs associated with annual GUA audits.37

31. Therefore the Board directs AUI in its Refiling to reduce its leak survey forecast by \$55,100, reduce its lowering of high pressure lines forecast by \$45,000, reduce its pipeline maintenance forecast by \$96,550, and to reduce its general operating forecast by \$29,100; for a total reduction of \$225,750 to AUI's 2007 material, contractor and other O&M expense forecast.40
32. Although the community expense item is small, the Board does not consider it appropriate for these costs to be borne by ratepayers. The Board continues to hold the view that sponsorship of community events should not be included in revenue requirement. Therefore the Board directs AUI in its compliance filing to reflect a reduction of \$20,000.....41
33. Given the Board's finding that financial harm has occurred, the Board finds these costs to be inappropriate and therefore should not be included in just and reasonable rates. The Board considers that it is necessary to mitigate the impact of that harm by reducing inter-affiliate shared costs and the negative impact on customers of the substantial increase in these costs subsequent to the Transaction. AUI indicated in Table 56 of the Application that the total amount associated with the change in allocation from 21.45% to 91.40% is \$632,573. Therefore the Board directs AUI, in the Refiling, to reduce its forecast of inter-affiliate shared costs by \$632,573, subject to the direction below with regard to shareholder-related incentive compensation.51
34. Therefore the Board directs AUI in the Refiling to remove all shareholder related incentive compensation amounts from the inter-affiliate shared costs, and to provide a true-up schedule showing the deduction of these amounts. The Board is concerned about the lack of transparency in inter-affiliate shared costs and observes that the \$123,000 figure identified by KPMG was not separately identified in the schedules provided by AUI in the Application.52
38. Unless otherwise approved by the Board, use of the flow-through method to determine income taxes for regulatory purposes mandates that AUI is to maximize all of the deductions allowed under income tax legislation. Consequently, the Board directs AUI, in its Refiling, to claim the maximum capital cost allowance allowed for class 12 assets in the determination of its income tax expense for 2007.....59
39. The Board notes the views of the interveners that the reasons given by AUI for choosing a one-year test period are not compelling. However, the Board is aware of other regulated utilities that have used single test years on occasion, overall, the Board is not convinced in this case that it should disallow a portion of AUI's forecast costs for the 2007 Phase I GRA, as submitted by AUMA/UCA. The Board notes that all hearing costs are subject to Directive 31B, and expects AUI to demonstrate to the Board's satisfaction that any costs have been prudently incurred.61
40. The Board directs AUI to revise its 2007 GRA Phase I to reflect the Board's findings, conclusions and directions in this Decision and to re-file the amended GRA by January 18, 2008. The Board expects AUI in its Refiling to provide a summary of all adjustments made, including details of any associated impact on NWC, taxes, depreciation, or any other related areas.....62

APPENDIX 3 – BOARD DIRECTIONS TO BE DEALT WITH IN THE NEXT GRA[\(Return to text\)](#)

2. The Board is of the view that establishing a transparent capitalization policy falls within the Board’s purview under the GUA with regard to setting just and reasonable rates. Clear capitalization policies mitigate the potential for double-counting of costs that are capitalized or expensed. Further, it ensures that appropriate rules are in place to guide the utility in determining whether or not particular costs may be capitalized and thereby form a portion of the rate base. Any capitalization policy is subject to some level of discretion, but should be founded on established principles and parameters. 7
3. The Board agrees with CCA that a more detailed review of AUI’s capitalization guideline or policy is appropriate. Therefore the Board directs AUI in its next GRA to file a detailed capitalization policy that addresses the issues raised by CCA, and to provide a full explanation of the rationale underlying its proposed policy. The capitalization policy filed should reflect that capitalized expenses would provide benefit over a period of more than one year. To the extent that the principles underlying the CICA Handbook are applicable, the Board encourages AUI to comply with the CICA Handbook. 7
4. The Board considers AUI’s updated AFUDC rate of 6.86% for 2007 appropriately reflects the weighted average cost of capital for CWIP, excluding any reduction resulting from CIAC which is related to financing rate base. However, the Board agrees with CCA that further investigation into whether or not AUI should apply AFUDC on net CWIP is warranted. Therefore the Board directs AUI in its next GRA to review the treatment of AFUDC on CWIP, and provide an explanation of any areas in which the proposed treatment is not consistent with other Alberta utilities regulated by the Board. In any event, AUI should provide a detailed discussion of its findings, including a full explanation of the rationale underlying any proposed changes. 8
5. Although the Board agrees with AUI that any reduction of the purchasing burden from general plant will simply shift the amount from general plant to other plant, the Board considers that further explanation and support of the appropriateness of the 10% purchasing burden is warranted. Therefore the Board directs AUI in its next GRA to file an assessment of its purchasing burden. If any changes are proposed to this practice, the Board directs AUI to provide a full explanation of the underlying rationale supporting the change. 9
7. Although AUI did not provide detailed justification of the changes in unit costs for trenching and labor, the Board is prepared to accept the revised forecasts as reflecting the most up-to-date information available. However, in future applications, AUI should provide a full explanation of any significant changes in underlying cost inputs in capital expenditures to allow for adequate testing by the Board and interveners. Therefore the Board directs AUI in future applications to provide a full explanation of any significant changes in underlying cost inputs in capital expenditures, as compared to the original application. 11
9. In future proceedings, the Board considers that it would be more efficient and lead to greater transparency if updates were more clearly indicated. To this end, the Board directs AUI, in future proceedings when updates are made, to produce both a full narrative explanation of the reasons for the changes, along with a table indicating the

- changes made to the original application, including the original amount, the updated amount, and the magnitude of each change.14
22. The Board directs AUI in future GRAs, when using surveys such as the Mercer Report, to provide additional information that allows for valid industry comparisons between AUI and other representative utilities. The information should include, but not be limited to, a description of both the market and the industry in which the comparative utilities participate, the size of the comparative utility and the number of employees.....30
27. In order to clearly understand and assess any future STIP amounts, the Board directs AUI, in future GRAs, to provide a full explanation and details regarding its STIP for each group of employees that are eligible for this incentive. The explanation and details provided are to include, but not be limited to, clear and measurable targets in each key result area, the method by which AUI calculates its forecast STIP amount, and the results that AUI expects in terms of shareholder and customer value. In addition, the Board observes that the president and CEO of AUGI, rather than the president of AUI, must approve the individual objectives set for AUI vice presidents. The Board directs AUI to further address how the involvement of AUGI in approving individual objectives for AUI vice presidents leads to improvements that benefit customers. Future STIP proposals related to targets that are to the benefit of shareholders will not be approved.35
35. The ASA states that the calculation of total assets, which forms the basis for the allocation of fiduciary services costs to AUI, is based on the second preceding year's audited financial results at the beginning of the term (or renewal term) of the ASA. The term of the ASA began on January 1, 2007. The allocation proportions for 2007 are based on the 2005 audited results. However, for known, new operating companies that do not have audited results, budget figures are used to determine the allocation proportions. The Board directs AUI, in future proceedings, to explain whether its allocation of fiduciary costs is based on audited or budget figures, and if budget figures are proposed to be used, to further provide those figures and address the forecasting risk associated with using only budget figures.54
36. The Board directs AUI in its next GRA, to file an inter-affiliate agreement which complies with the Board approved inter-affiliate Code of Conduct, and to provide a full assessment of such compliance at its next GRA.54
37. While MGCI proposed a composite allocator, the Board agrees with AUI that MGCI should have filed evidence with respect to this alternate proposal so that it could be fully tested. In the absence of such evidence on a composite allocator, the Board considers that it is appropriate that this matter be reviewed further. Therefore the Board directs AUI in its next GRA to propose a composite allocation methodology for fiduciary services that takes into account how these costs are incurred, along with a full explanation of the rationale underlying its proposed methodology. The Board considers that as part of the study, AUI should address the issue of whether management time and attention should be considered in the allocation formula.55