Alberta Utilities Commission

AltaGas Utilities Inc.

2007 Deficiency Rider
Interim Refundable Rates and
Standard Contribution – Rural Other

October 21, 2008

ALBERTA UTILITIES COMMISSION
Decision 2008-103: AltaGas Utilities Inc.
2007 Deficiency Rider, Interim Refundable Rates, and Standard Contribution – Rural Other
Application No. 1575162
Proceeding ID. 64

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Contents

List of Tables

ALBERTA UTILITIES COMMISSION
Calgary Alberta

ALTAGAS UTILITIES INC.
2007 DEFICIENCY RIDER — **Decision 2008-103**
INTERIM REFUNDABLE RATES AND — **Application No. 1575162**
STANDARD CONTRIBUTION – RURAL OTHER — **Proceeding ID. 64**

1 INTRODUCTION

AltaGas Utilities Inc. (AUI or the Company) filed an application (Application) on June 5, 2008, with the Alberta Utilities Commission (AUC or the Commission) requesting approval to:

1. implement a deficiency rider to recover the 2007 Deficiency;
2. implement interim refundable rates based on the 2007 approved revenue requirement; and
3. amend AUI's non-refundable contribution rate for *Rural – Other Services*.

Subsequently, by letter dated October 14, 2008, AUI clarified their intent that the 2007 Deficiency Rider be implemented based on final approved rates for 2007 and requested billed rates in 2007 be approved as final.

On June 10, 2008, the Commission issued a Notice of Application, with a deadline for Statements of Intention to Participate (SIPs) of June 17, 2008. Three SIPs were subsequently received from: the Office of the Utilities Consumer Advocate (UCA), the Municipal and Gas Co-op Interveners (MGCI), and the Alberta Sugar Beet Growers and the Potato Growers of Alberta (ASBG/PGA).

On June 19, 2008, the Commission established the following schedule to deal with the Application:

Table 1. Commission Schedule

Information Requests to Applicant	June 27, 2008
Information Responses from Applicant	July 11, 2008
Argument	July 18, 2008
Reply Argument	July 23, 2008

The Commission considers the record for the proceeding closed on July 23, 2008. The Commission member assigned to this Application is Carolyn Dahl Rees.

2 BACKGROUND

In Decision 2008-032,[1] the Commission approved AUI's 2007 revenue requirement of $35,711,855 as final, resulting in a forecast revenue deficiency for 2007 of $2,286,190 (2007 Deficiency).

The most recent change to AUI's natural gas distribution rates took effect on November 1, 2007, as a result of Decision 2007-079.[2]

3 ISSUES

3.1 Deficiency Rider

3.1.1 Basis for recovery of Deficiency Rider

AUI proposed to recover its 2007 Deficiency using a rider (2007 Deficiency Rider) that would apply to default-supply customers served under Rates 1, 2, 3 and 4 as well as customers served by competitive retailers under Rates 11, 12, 13 and 14. The 2007 Deficiency Rider would be allocated to current customers using the billed distribution service revenue from each customer's account in 2007.

In the Application, AUI provided the following estimates (see Table 2 below) for 2007 billed distribution service revenue and a 2007 Deficiency Rider. The estimated distribution service revenue is derived from AUI's customer information system (CIS) as of June 3, 2008.

Table 2. 2007 Revenue Deficiency and Deficiency Rider

Description	Amount
2007 Deficiency per Decision 2008-032 plus carrying costs	$2,290,811
Estimated 2007 billed revenue *	$32,667,812
Estimated 2007 Deficiency Rider (%) *	7.012%

*The 2007 estimated billed revenue and 2007 Deficiency Rider are proposed as placeholders that AUI would update and file with the AUC one week prior to the month of implementation.

The impact of customer attrition that occurred between the revenue shortfalls incurred during 2007 and the application of the 2007 Deficiency Rider to customer bills in September and October of 2008 would be mitigated through an AUI compliance filing updating the base 2007 billed revenue and the 2007 Deficiency Rider the week before implementation. Assuming that any over or under-collection incurred due to the difference between the proposed and actual 2007 Deficiency Rider is immaterial to the approved revenue requirement, AUI proposed the residual difference be taken into income on a current basis. AUI suggested that materiality would be in the order of less than $10,000.

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

[2] Decision 2007-079 + Addendum – AltaGas Utilities Inc. 2005/2006 General Rate Application Phase II (Application 1491262) (Released: October 16, 2007) (Addendum Application 1556666) (Released: February 12, 2008)

The 2007 Deficiency Rider would be applied based on the following guidelines:

- Active accounts in September and October 2008 with billed revenue in 2007 are included, while non-active accounts are excluded;
- With the exception of adjustments resulting from corrections or errors in billing, the 2007 Deficiency amounts charged to customers are final; and,
- A reconciliation of the 2007 Deficiency Rider will be provided as information to the AUC.

AUI submitted that it has balanced the time and resources required to implement the 2007 Deficiency Rider and the level of sophistication required to collect the 2007 Deficiency. AUI further stated the method proposed in this filing was essentially the same as the methods approved in the 2004 Deficiency Rider,[3] the 2005 Deficiency Rider,[4] as well as the 2006 Deficiency Rider.[5]

AUI considered that this method allows recovery of the 2007 Deficiency in a timely manner, does not require any additional CIS development costs, and has previously met the test of being just and reasonable.

Neither the UCA nor the MGCI objected to recovering the 2007 Deficiency by means of a rider, however, there was some confusion and disagreement on whether the 2007 Deficiency Rider was designed based on actuals or forecasts and on what basis it should be recovered. UCA argued that prospectivity should be maintained in the rate setting process and contended that the 2007 Deficiency Rider should be designed using forecast revenues at existing rates. Further, AUI's proposed compliance filing should reflect the forecast deficiency and forecast revenues.

ASBG/PGA noted that customer attrition during 2008 will result in an increase in the 2007 Deficiency Rider for remaining customers. ASBG/PGA argued that AUI should be responsible for attrition risk, as their return on equity compensates for this risk. Therefore, the base 2007 billed revenues should reflect the actual 2007 revenues for all active accounts during the 2007 year.

The Commission agrees with AUI that the forecast Deficiency should be recovered in the same manner as approved with respect to the 2004, 2005 and 2006 Deficiency Riders to maintain consistency of treatment in respect to AUI. On this basis, the Commission does not accept the recommendations of the UCA.

The Commission notes that ASBG/PGA did not provide specific evidence or rationale to support its argument. The Commission also considers the rate-making principles of cost causation and intergenerational equity are better addressed in the AUI methodology of collecting the 2007 Deficiency and does not accept the ASBG/PGA argument.

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[3] Order U2005-341 – AltaGas Utilities Inc. 2003/2004 General Rate Application(GRA) Deficiency Rider and Disposition of Residual Revenue Excesses and Gains from the 2000/2001/2002 GRA (Application 1413073) (Released: August 24, 2005)

[4] Order U2006-41 – AltaGas Utilities Inc. Interim Refundable Rates and 2005 Deficiency Rider Application (Application 1436060) (Released: February 21, 2006)

[5] Decision 2007-079

Further, the Commission notes that AUI's proposed method of collection would not require further CIS costs and thus presents a practical approach.

On this basis, the Commission accepts AUI's Applied-for methodology for collecting the 2007 Deficiency Rider.

The Commission agrees with the compliance filings proposed by AUI in the Application, and has addressed them in Section 4 of this Decision.

3.1.2 Rider Collection Period and Carrying Costs

In calculating the amount to be recovered through the 2007 Deficiency Rider, AUI included a carrying cost of $4,621, based on AUC *Rule 023* and the two-month recovery period. AUI noted that this was the same methodology used to calculate carrying costs in the 2005 Deficiency Rider.[6]

AUI proposed to recover the 2007 Deficiency over September and October 2008. The two-month Deficiency recovery period was based on the EUB's determination of a three-month recovery period for the 2005 Deficiency, as the 2007 Deficiency is approximately two-thirds of the size of the 2005 Deficiency. In addition, AUI considered that this shorter collection period would avoid adding charges during the winter period when customer invoices tend to escalate due to increasing gas prices and usage. Further, under-collections would be reduced due to attrition being minimized through the use of the two-month time frame.

The Commission notes that parties did not object to the proposed two-month collection period. However, given that the Deficiency Rider will not be applied until November, 2008, the Commission considers a four-month collection period would be more reasonable in terms of the amount of the monthly charge in the winter months.

No party objected to carrying costs being included in the 2007 Deficiency Rider. The Commission has reviewed AUI's calculations with respect to the carrying costs and does not take issue with the calculations or amounts.

Therefore, the Commission approves a four-month collection period and the inclusion of three months of carrying costs in the 2007 Deficiency Rider.

3.2 Interim Rates

Based on the Commission's approval of AUI's 2007 revenue requirement in Decision 2008-032, AUI calculated the following deficiency in rates:

Table 3. Interim Rates

Description	Amount
2006 approved net revenue requirement allocated to rates per AUI's 2005/2006 Phase 2 GTA (Decision 2007-079, Appendix 4, Page 1 of 1)	$31,689,000
2007 Deficiency per Decision 2008-032	$2,286,190
2007 Deficiency as a percentage of 2006 approved net revenue requirement	7.214%

6 Order U2006-41

AUI applied for interim refundable rates, effective September 1, 2008. AUI considered that the interim refundable rates would facilitate collection of the approved revenue requirement within an appropriate timeframe, increase rate stability, and mitigate the potential for rate shock when new rates, based on the 2008/09 GTA expected in late 2009, are approved.

The ASPG/PGA did not oppose the applied-for interim rates in light of the forthcoming 2008-2009 GRA and the fact that the rates are proposed to be refundable.

The UCA submitted that, as applied for, the interim rates were based on "apples and oranges" - the 2007 revenue deficiency and the 2006 net revenue requirement - but should be based on the 2007 revenue deficiency and the 2007 approved net revenue requirement (apples to apples). This would change the interim rate increase from the applied-for amount of 7.214% to 7.11%.

AUI disagreed with the UCA "apples and oranges" characterization and stated that its proposal applied the percentage increase to existing rates that were needed to recover the 2007 revenue requirement. Given that AUI's existing rates were based on the 2006 allowed revenue requirement, it would be inappropriate to use the 2007 approved revenue requirement in determining the rate adjustment. This method was the same approach used for interim rates that were approved for AUI in Order U2006-41. Based on this reasoning, the Commission accepts AUI's methodology for calculating interim rates.

AUI proposed to apply the interim rates "across-the-board" to all rate classes. This methodology was also approved in Order U2006-41. AUI submitted that this method would minimize the time and effort required to set up and test their billing system.

No party to the current proceeding expressed concern with the across-the-board approach of applying the interim rates. Given the parties acceptance and past prior approval of this methodology, the Commission approves the "across-the-board" application of interim rates as filed.

Based on the foregoing, the Commission approves AUI's request for interim refundable rates as filed.

3.3 Rural – Other Contribution (Standard Non-Refundable Contributions)

AUI applied for an increase in the non-refundable contribution amount for *Rate 1/11 Service – Rural Other* from the existing $2,700 to $4,300. The application was in response to concerns expressed by the Rural Utilities Division of the Department of Agriculture and Rural Development (Rural Utilities), in respect of differing standards of rural contributions.

AUI submitted that the current amount is considerably less than other utilities' contribution requirements for similar service types, and noted that the $4,300 would be close to the amount used by ATCO Gas, which is the distribution utility most commonly compared to AUI. AUI also stated that increasing the standard contribution requirement to $4,300 would reduce the need for higher-dollar non-standard contributions for higher-cost services.

AUI acknowledged the concerns expressed by Rural Utilities and stated that, where reasonably possible, AUI is prepared to try and facilitate changes that will improve service quality for AUI's customers and stakeholders such as Rural Utilities. Based on an annual estimate of customer connection capital costs and Government of Alberta grants related to *Rate 1/11 - Rural Other* services, the proposed $4,300 standard contribution level would result in customer connections below $20,000 in capital costs not requiring additional customer (non-standard) contributions. At a level of $4,300, Rural Utilities' concerns would be addressed. AUI also stated that an increase to the *Rate 1/11 Service – Rural Other* non-refundable contribution would have a very limited impact to the vast majority of AUI's customer base - approximately two to three hundred new customers each year could be affected by this change, equating to less than one-half of one percent of AUI's customer base.

AUI also argued that an increase in the customer contribution amount would be a customer service improvement in that it would be easier for customers to understand and AUI to administer, would help make the AUI tariff easier to understand, and would result in fewer complaints from customers to Rural Utilities regarding the non-standard contributions charge.

3.3.1 Appropriate Comparator

UCA submitted that the proposed change to the Rural - Other contributions should not be approved based only on a comparison with ATCO Gas. Further, the UCA was concerned that AUI Rural includes AUI "Town" and "Rural – Subdivisions". MGCI argued that the Rural - Other contributions should not necessarily be equal or close to the levels of other utilities such as ATCO, but rather should be appropriate for AUI. ASBG/PGA argued that the comparison was not made with different-sized services in the rate class and with other rate classes (compared to the Rural - Other rate class) contribution requirements.

AUI stated that the Special Charges Schedule from its approved *Natural gas Utility Service Rules* (AEUB Decision 2007-079) specifically define Rural – Other as a service site which is neither defined as "Town" nor "Rural Subdivision". AUI also stated that it understands ATCO Gas' Rural Pool includes a similar type of customer to AUI's Rural – Other and accordingly provides an appropriate comparator.

3.3.2 Investment Policy

AUI submitted that the proposal to change the Rural – Other non-refundable contribution amount would have no impact on AUI's rates in the 2008/2009 GTA. Increasing the contribution amount would offsets costs that would otherwise be recovered through a non-standard non-refundable contribution. In other words, a contribution rate of $4,300 would yield the same level of funding generated by a combination of the existing rate of $2,700 plus non-standard contributions. The Company's investment would be the same in both cases. Maintaining a rate of $2,700 does not result in lower costs for customers. It only means additional non-standard contributions will be required. This aspect of AUI's contribution policy is important because it ensures that subsidization between rate classes and customer segments is minimized.

UCA submitted that the proposed change to the Rural - Other contributions should not be approved based solely on comparison to ATCO Gas contributions, but rather should be based on a full review of the maximum investment levels and contributions.

ASBG/PGA stated a concern that comparison was not made with overall AUI investment policies.

AUI argued that it maintains the maximum investment criteria in all three of the Rural classes and that ATCO Gas is used only as a comparator. AUI considers that it has undertaken the required analysis and determined that the standard non-refundable contribution for the Rural – Other category should be set at $4,300. The result should be no further contribution required for service applications with a cost below $20,000 and a required non-standard contribution for service applications with a cost above $20,000.

3.3.3 Role of Rural Utilities

MGCI was concerned with AUI's presentation of the issue as a response to a third party, Rural Utilities. MGCI considered that AUI should put forth its proposals based on AUI's evaluations and conclusions as to their merits, and that nowhere in the *Gas Distribution Act* R.S.A. c. G-3. (GDA) is Rural Utilities or the responsible Minister provided with powers to manage a private utility; thus any recommendations are subject to due consideration but not blind adherence.

AUI stated that Rural Utilities administers the GDA and, as a distribution utility in rural Alberta, AUI is subject to the GDA with respect to certain aspects of its operations. AUI argued that the concern expressed by Rural Utilities is relevant in that it relates to the philosophy of the Rural Gas Program, which is responsible for making natural gas available to rural customers throughout Alberta. The philosophy is that all applicants for a new service in a given year should pay the same amount for that service, regardless of the specific capital costs of the service. The contribution practices of other rural utilities administered under the Rural Gas Program comply in this way. AUI is the only natural gas utility in Alberta subject to the *Gas Distribution Act* to receive funding under the Rural Gas Program and deviate in its practice from that of other rural utilities under the Rural Gas Program. Rural Utilities' concern emanates from this non-standard approach and should therefore not be considered irrelevant.

3.3.4 Issue Belongs in a GTA

ASBG/PGA submitted that the proposed change was addressed in a summary manner in an application that primarily dealt with the rate rider and the interim rate application. ASBG/PGA was concerned that appropriate comparisons were not made with other rate classes and overall AUI investment policies, and considered that the Rural - Other contributions issue should be addressed more fully in the next AUI GTA.

AUI stated that if this issue is deferred to their next GTA, it will be two years from the original Rural Utilities expression of concern before the Rural - Other contributions amount is changed. AUI stated that Rural Utilities asked AUI to address the issue as soon as possible, and AUI responded that it would include the issue in this Application. AUI argued that two years is too long to wait to resolve this issue.

3.3.5 Pooling

One party, ASBG/PGSA, objected to the pooling of all rural rate classes for standard non-refundable contributions. ASBG/PGSA was concerned that the proposed change does not address the different-sized services within the Rural - Other rate class.

MGCI did not oppose the pooling concept or the proposed target of $4,300. It recognized that there is some level of subsidization between new customers with lower service costs and new customers with higher service costs that must be tolerated in order for pooling to be effective in the reduction of non-standard contributions. However, MGCI did oppose the applied-for increase in the standard contribution amount from $2,700 to $4,300 on a one-time basis (a 59% increase) as excessive and leading to rate shock. MGCI proposed that 50 per cent of the applied-for increase (i.e. $800 of the proposed $1,600 increase) be approved.

AUI argued that an advantage of raising the standard contribution amount from $2,700 to $4,300 would be the minimization in subsidization between rate classes and customer segments in the rural pool. AUI did not agree with the MGCI proposal for a partial increase in the Rural – Other contribution.

The Commission is persuaded by the evidence presented by AUI that a change to the standard non-refundable contribution amount is appropriate, but notes the significant objections expressed by parties were not sufficiently examined. The Commission also finds a need for more detailed argument from interveners, but at this time accepts the concerns regarding the applied-for increase being large, arguably leading to rate shock for AUI's customers. The AUC therefore approves a 50 percent increase (from $2,700 to $3,500) in the standard non-refundable contribution amount for now, and refers the issue for more full examination in AUI’s 2008/09 GTA.

4 ORDER

IT IS HEREBY ORDERED THAT:

(1) AUI's 2007 Deficiency Rider is approved, to be applied over a four-month period, starting in November of 2008, with three months of carrying costs.

(2) AUI's interim refundable rates are approved effective November 1, 2008.

(3) AUI's billed rates in 2007 are approved as final rates.

(4) Effective November 1, 2008, AUI's standard non-refundable contribution rate is increased from $2,700 to $3,500.

(5) AUI is directed to submit a compliance filing, updating the placeholders in the Application for base 2007 billed revenue and the Deficiency Rider by October 27, 2008.

(6) AUI is directed to submit to the AUC a compliance filing by February 28, 2009, reconciling the forecast and the actual 2007 Deficiency Rider and providing a recommended method of disposition of any difference.

(7) AUI is directed to submit to the AUC a compliance filing updating the current revenue forecast in it's 2008/2009 Phase 1 GTA (Application No. 1579247), reflecting the interim rates approved in this decision. This compliance filing is to be filed during AUI's 2008/2009 GTA proceeding and can be filed separately or as part of another update in the proceeding.

Dated in Calgary, Alberta on October 21, 2008.

ALBERTA UTILITIES COMMISSION

(original signed by)

Carolyn Dahl Rees
Vice-Chair

APPENDIX 1 – PROCEEDING PARTICIPANTS

Name of Organization (Abbreviation) Counsel or Representative
AltaGas Utilities Inc. (AUI) Jennifer Coleman Robert Koizumi
Alberta Sugar Beet Growers and the Potato Growers of Alberta (ASBG/PGA) J. Henry Unryn Vern Warkentin Bruce Webster
Consumers' Coalition of Alberta (CCA) Azad Merani James Wachowich
Municipal and Gas Co-op Interveners (MGCI) Thomas D. Marriott (Brownlee LLP) Greg Garbutt
Office of the Utilities Consumer Advocate (UCA) J. Alan Bryan Robert Bruggeman

Alberta Utilities Commission Commission Panel Carolyn Dahl Rees, Vice-Chair Commission Staff Vera Slawinski (Commission Counsel) Paul Howard Chris Burt Mark McJannet