



AltaGas Utilities Inc.

**2005/2006 General Rate Application
Phase I Compliance Filing**

April 4, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-034: AltaGas Utilities Inc.

2005/2006 General Rate Application – Phase I Compliance Filing

Application No. 1436063

April 4, 2006

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ALTAGAS UTILITIES INC.
2005/2006 GENERAL RATE APPLICATION
PHASE I COMPLIANCE FILING**

**Decision 2006-034
Application No. 1436063**

1 INTRODUCTION

On December 16, 2005, AltaGas Utilities Inc. (AUI) re-filed with the Alberta Energy and Utilities Board (Board) the Phase I portion of AUI's 2005/2006 General Rate Application (GRA) to reflect and comply with the Board's findings and directions in Decision 2005-127 (Compliance Filing).

To deal with the Compliance Filing, the Board established a process whereby parties who wanted to file a submission on AUI's Compliance Filing were required to do so by January 19, 2006. AUI's reply to submissions respecting the Compliance Filing was to be filed with the EUB no later than February 3, 2006.

On January 19, 2006, the Consumers Group (the CG) filed a submission regarding the completeness of AUI's compliance filing. On February 3, 2006, the Board received AUI's response to the CG's submission.

Accordingly, the Board considers the close of record of this proceeding to be February 3, 2006.

2 BACKGROUND

On December 23, 2004, AUI filed with the Board the Phase I portion of its 2005/2006 General Rate Application (1378000). Under provisions of the *Gas Utilities Act*, c. G-5, RSA 2000, AUI requested the following:

- (a) determine a rate base for AUI that is used or required to be used in AUI's service to the public, and fix a corresponding fair return;
- (b) fix and approve just and reasonable rates, tolls or charges to be imposed and followed by AUI for the delivery of natural gas and related services;
- (c) give effect to any losses incurred by AUI that may be due to an undue delay in the hearing and determination of the application; and
- (d) provide any further determination or direction the Board may consider appropriate.

A hearing was held from July 18, 2005 to July 20, 2005 in Edmonton, Alberta. Decision 2005-127 was issued on November 29, 2005.

On December 9, 2005, AUI filed a letter with the Board which raised technical issues pertaining to Decision 2005-127. AUI's Compliance Filing addressed both the Board's directions from Decision 2005-127 and addressed any related technical issues raised by AUI's December 9, 2005 letter.

3 Compliance with Board Directions

The Board has reviewed AUI's 2005/2006 Phase I Compliance Filing and determined that AUI has complied with the Board findings and Directions in Decision 2005-127. While the Board will not comment on AUI's compliance with each and every Board direction in Decision 2005-127, there are a number of Board Directions related to technical issues raised by AUI in its Compliance Filing and/or compliance issues raised by the CG, which are listed below, that warrant discussion.

- Board Direction 1 (Orr Mineral Development Limited Assets)
- Board Direction 8 (Transmission Plant Pipeline Expenditures)
- Board Direction 12 (Deferred Regulatory Costs)
- Board Direction 13 (Customer usage for commercial customers)
- Board Direction 16 (Reduction to forecast cost for maintenance contracts)
- Board Direction 21 (Adjustment to capitalization rate)
- Board Direction 23 (Exclusion of STIP compensation amounts)
- Board Direction 30 (LCT calculation)
- Board Direction 32 (Changes in CCA rates)
- Board Direction 35 (Deemed debenture placeholder amounts)

3.1 Board Direction 1 (Orr Mineral Development Limited Assets)

Therefore, the Board directs AUI in its compliance filing to:

- *re-examine the use of the consumption level of 138 GJ per customer in its NPV analysis and adjust the consumption level if appropriate, and if the result remains at 138 GJ, then AUI must provide additional information which will assist the Board in understanding that result;*
- *quantify and explain all concerns and deficiencies contained in AUI's Due Diligence Report;*
- *re-examine why AUI did not forecast any replacement or increase in maintenance costs over the term of the NPV analysis and adjust for any conclusions reached which differ from the filed NPV analysis, and if the result remains unchanged, then AUI must provide additional information which will assist the Board in understanding that result; and*
- *provide further explanation regarding the assumptions in the NPV and file an excel spreadsheet (including formulas) of the NPV analysis and any other calculations that would enable the Board to verify all of the numbers in the NPV analysis.*

In considering the merits of including any asset in a rate base, the Board assesses the possibility of harm to customers. In Decision 2000-41, the Board stated that:

The Board has held that its discretion under essentially similar provisions of the GU Act must be exercised according to a "no harm" standard. More specifically, the Board has held that it must be satisfied that customers of the utility will experience no adverse impact as a result of the reviewable transaction.¹ The Board considers that a similar

¹ See Decision U98084, NOVA Corporation, et al., Application for Regulatory Approvals in Connection with a Proposed Merger of NOVA Corporation and TransCanada Pipelines Limited (May 19, 1998), p.6; Decision U98097, Westcoast Energy Inc. et al., Sale of Shares in Centra Gas Alberta Inc. from Westcoast Energy Inc. to AltaGas Services Inc. (June 29, 1998), p.3; Decision U99102, supra, p. 8

principle applies when it is asked to approve transactions pursuant to Section 91.1(2) of the PUB Act and believes that guidance in the application of this principle can be found in other provisions of its governing legislation.²

In previous decisions, the Board has used two criteria when applying the no harm test. These can be characterized as (1) assessing the continuity of safe and reliable operation of the utility as a result of the transaction, and (2) assessing the impact to customers, financial or otherwise, from the completion of the transaction.³

In Decision 2005-127, the Board concluded that the Orr Mineral Acquisition would not have a significant impact on the continued safe and reliable operation of AUI, nor customer service levels. However, the Board found that further evidence with regards to consumption levels, NPV, and supplemental information regarding AUI's Due Diligence Report was required before the Board could make a determination on the financial impact of the Orr acquisition and whether to approve the inclusion of the asset in rate base. Therefore, as noted earlier, the Board directed AUI to include certain additional information related to the Orr Mineral Acquisition in the Compliance Filing.

Having reviewed the supplemental information, the Board notes with acceptance that AUI's Due Diligence Report suggests that forecasts for operating and maintenance costs and replacements associated with the Orr assets are reasonable.

In addition, the Board notes that AUI's NPV analysis indicates that the acquisition of Orr Minerals at a price of \$260,267 results in a positive NPV over a 25-year period, with revenues greater than AUI's forecast revenue requirement in the first year and in the 10th and subsequent years. Based on the supplemental information, the Board accepts the results of AUI's NPV analysis. The Board views the annual revenue deficiencies in the 2nd to 9th years as immaterial and considers the financial impacts on AUI's customers over this period to be insignificant. Therefore, the Board accepts that AUI could economically purchase the assets for a cost of \$260,267 without causing any material harm to existing customers in both the short and long term.

Furthermore, the Board notes that the customers of Orr received the gain on sale, and were held harmless.⁴ AUI has submitted that the forecast revenues from former Orr customers will offset any need for an increase in rates for existing AUI customers caused by the acquisition. This being the case, the Board considers that customers of AUI are held indifferent or no worse off after the acquisition.

For all of the above reasons, the Board is of view that the acquisition of Orr Minerals is reasonable even though the acquisition cost includes a premium over the net book value of the assets. Central to this view is the Board's finding that there will be no material impact on customers arising from the transaction in both the short and long term as presented in AUI's NPV analysis.

² Decision 2000-41, p. 8

³ For example, see Decision 2002-069, pp 28-29, Decision 2003-098, p. 4, and Decision 2005-118, pp. 6-7

⁴ Decision 2005-054, Orr Mineral Developments Ltd. Sale of Suffield Natural Gas Distribution System

Accordingly, the Board approves the inclusion of the acquisition of Orr Minerals into AUI's rate base at AUI's applied-for cost of \$259,000.

3.2 Board Direction 8 (Transmission Plant Pipeline Expenditures)

The Board concurs with AUI's reduction of \$176,000 for the Southeast Reinforcement project. The Board considers that a reduction in AUI's remaining forecast expenditures for transmission plant pipeline appears to be warranted for the 2005 and 2006 test years, based on AUI's history of over-forecasting these expenditures. The Board therefore directs AUI to exclude the \$176,000 for the Southeast Reinforcement project and reduce its 2005 and 2006 forecasts for the remaining transmission plant pipeline expenditures by 25% in its compliance filing.

The CG noted that AUI did not apply the 25% reduction in transmission plant pipeline expenditures to the cathodic protection portion of these expenses for 2005 and 2006. AUI acknowledged that it had inadvertently omitted this reduction.

The Board agrees with both the CG and AUI that the cathodic protection portions of the forecast expenditures for transmission plant pipeline additions should also be reduced by 25% for 2005 and 2006, as per Direction 8 in Decision 2005-127.

Therefore, the AUI 2005 forecast for transmission plant pipeline additions on page 1 of 4 of Schedule 6.1 (line 27) of the Compliance Filing of \$1,689,799 is overstated by \$8,449. Accordingly, to comply with Direction 8 in Decision 2005-127 transmission additions expenditure for 2005 must be reduced by \$8,449 to \$1,681,350. Similarly, for 2006, the forecast for additions on page 1 of 4 of Schedule 6.1 (line 27) of the Compliance Filing of \$267,124, is overstated by \$8,674 and must be reduced by \$8,674 to \$258,450.

The Board directs AUI to update Schedule 6.1 to reflect this revision, but does not require AUI to refile the schedule due to its relative immateriality.

3.3 Board Direction 12 (Deferred Regulatory Costs)

In its deferred regulatory costs for 2005, AUI included an amount of \$20,000 for its 2003/2004 GRA Compliance Filing, Phase I. The CG noted that in Utility Cost Order 2005-011, dated February 17, 2005, the amount approved by the Board was \$4,069.49. AUI agreed that the amount in the cost order was correct. Accordingly, the Board directs AUI to make the appropriate adjustment in its compliance filing.

In Decision 2005-127, AUI noted that the Board indicated that AUI's regulatory fees for the 2005 and 2006 test years were approved as filed and that the regulatory hearing cost deferral account be brought to a zero balance.⁵ AUI submitted that there appeared to be a minor disconnect between Direction 12 and comments provided in the Decision.⁶ Additionally, EUB Utility Cost Order 2005-044, dated July 25, 2005 (AUI's 2003/2004 Phase II GRA), denied AUI the recovery of approximately \$97,000 in costs.

In addition, AUI noted that the Board indicated in Decision 2005-029 that the annual EUB assessment should be recovered through the hearing cost reserve account and any concerns

⁵ Decision 2005-127, p. 25

⁶ Decision 2005-127, p. 25

regarding the impact due to customer migration to retail supply be addressed in its 2005/2006 GRA.⁷ No parties submitted any concerns with regards to the EUB annual assessment.

With regard to Direction 12 and the disallowance of costs per Board Order 2005-044, AUI adjusted the deferred account to reflect the actual allowed costs of Orders 2005-011 and 2005-044 and adjusted the amortization of regulatory fees to achieve a zero balance in the deferred regulatory cost account by the end of the test period. Further, AUI amended the detailed deferred regulatory cost account schedule to reflect the inclusion of the EUB assessment charge per Decision 2005-029. AUI submitted that this was a correction of format and has no financial impact compared to its original filing.

The CG submitted that beyond AUI's revisions associated with Utility Cost Order 2005-011, AUI made further changes to Lines 20-28 of Schedule 7.2 in the Compliance Filing related to the 2003-04 GRA (Phase I and II). These changes reflected the disallowance in UCO 2005-044 of \$97,000, as well as a reversal of "forecast costs from December 31, 2004 Balance" in the amount of \$448,580 noted on Schedule 7.2, L27. The CG suggested that AUI provide a detailed reconciliation of the amount claimed in its filed GTA of \$177,600 to the revised amount of \$190,308, taking into account the adjustment in UCO 2005-044, costs approved in UCO 2005-044(a) and any other adjustments.

AUI disagreed that a detailed reconciliation is required, but provided the table below which summarized the original forecast hearing costs pertaining to the 2003/2004 GRA (Phases I & II) as compared to the final allowed amounts per Board Orders U2005-044 and U2005-044(a).

| Costs for | | Reference | | Dollars |
|-----------|----------------------|---|---|----------------|
| 03/04 GRA | Phase 1 & 2 | Forecast per 05/06 GRA | Schedule 7.2 Line 1 (Dec. 23, 2004) | \$448,580 |
| 03/04 GRA | Phase 2 (additional) | Forecast per 05/06 GRA | Schedule 7.2 Line 24 (Dec. 23, 2004) | 177,600 |
| 03/04 GRA | Phase 1 & 2 Total | Forecast per 05/06 GRA | | <u>626,180</u> |
| 03/04 GRA | Phase 1 & 2 | Allowed per Orders U2005-044 and U2005-044(a) | Schedule 7.2 Lines 20-26 (Dec. 16, 2005) | <u>638,888</u> |

AUI provided the following explanation of the table above. In preparing the Compliance Filing results, AUI reversed all the forecast costs, which totaled \$626,180. The reversal of Phase I forecast costs of \$448,580 appears on line 27 of Schedule 7.2 of the Compliance Filing. The reversal on line 27 removed the forecast Phase I & II amount that resides in the opening balance. The \$177,600 that appeared in the original forecast has simply been removed and does not require an explicit reversal. In place of the \$448,580 forecast Phase I & II costs and the additional \$177,600 forecast Phase II costs, AUI incorporated into the Compliance Filing the EUB-approved Phase I and Phase II costs of \$638,888 per UCO 2005-044 and UCO 2005-044(a).

The Board is of the view that the above table submitted by AUI clarifies the steps taken by AUI to comply with Direction 12 in Decision 2005-127. The Board is also satisfied that AUI has

⁷ Decision 2005-029, AUI 2003/2004 Phase II, p. 8

appropriately interpreted the Board's decision and has incorporated all past Board Cost Orders as required. The Board therefore concludes that AUI has complied with the Board's Direction 12 regarding deferred regulatory costs.

3.4 Board Direction 13 (Customer usage for commercial customers)

The Board therefore approves AUI's forecast consumption per customer for rural, residential and irrigation customers, but directs AUI to increase per customer usage for commercial customers to 630 GJ, and reflect this direction in its compliance filing including a breakdown of revenue forecast by rate class compared against a similar breakdown from AUI's original filing.

AUI noted that Decision 2005-029, dated April 12, 2005, approved final rates for the 2003/2004 GRA Phase II. These rates came into effect on May 1, 2005. AUI stated that the change in rates has a material impact on the forecast revenue requirement. Per Decision 2005-029, AUI revised its revenue forecasts to reflect the changes in rates, which includes the split of the monthly fixed charge into base and customer care components.

A comparison of the original revenue forecast and the updated forecast is shown in the table below:

| Line | Per Original Filing | | Per Compliance Filing | | Variance | | |
|--|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| | 2005 Forecast Normal | 2006 Forecast Normal | 2005 Forecast Normal | 2006 Forecast Normal | 2005 Forecast Normal | 2006 Forecast Normal | |
| Customers Billed | | | | | | | |
| 1 | Residential | 504,842 | 516,891 | 504,842 | 516,891 | - | - |
| 2 | Commercial | 71,493 | 71,637 | 71,493 | 71,637 | - | - |
| 3 | Rural | 153,288 | 154,766 | 153,288 | 154,766 | - | - |
| 4 | Irrigation | 1,939 | 1,939 | 1,939 | 1,939 | - | - |
| 5 | LGS | 1,740 | 1,740 | 1,740 | 1,740 | - | - |
| 6 | Commodity/Demand | 480 | 480 | 480 | 480 | - | - |
| 7 | | 733,782 | 747,453 | 733,782 | 747,453 | - | - |
| Volumes Billed (GJ) | | | | | | | |
| 8 | Residential | 5,322,577 | 5,424,024 | 5,322,577 | 5,424,024 | - | - |
| 9 | Commercial | 3,659,538 | 3,593,756 | 3,753,380 | 3,760,943 | 93,842 | 167,187 |
| 10 | Rural | 2,370,549 | 2,369,369 | 2,370,549 | 2,369,369 | - | - |
| 11 | Irrigation | 120,711 | 120,711 | 120,711 | 120,711 | - | - |
| 12 | LGS | 1,186,700 | 1,186,700 | 1,186,700 | 1,186,700 | - | - |
| 13 | Commodity/Demand | 1,720,688 | 1,720,688 | 1,720,688 | 1,720,688 | - | - |
| 14 | | 14,380,763 | 14,415,248 | 14,474,605 | 14,582,435 | 93,842 | 167,187 |
| Revenues Billed (\$) ⁸ | | | | | | | |
| 15 | Residential | \$51,645,825 | \$51,250,292 | \$52,013,971 | \$51,895,945 | \$368,146 | \$645,653 |
| 16 | Commercial | 31,646,888 | 30,161,384 | 32,484,280 | 31,607,142 | 837,392 | 1,445,758 |
| 17 | Rural | 21,999,120 | 21,392,388 | 22,110,659 | 21,585,651 | 111,539 | 193,263 |
| 18 | Irrigation | 1,014,127 | 982,977 | 1,025,122 | 998,425 | 10,995 | 15,448 |
| 19 | LGS | 9,625,846 | 9,316,615 | 9,547,695 | 9,170,539 | (78,151) | (146,076) |
| 20 | Commodity/Demand | 12,892,671 | 12,444,764 | 12,879,473 | 12,422,122 | (13,198) | (22,642) |
| 21 | Retail Market Cost of Sales Adjustment | (690,629) | (666,765) | (695,111) | (674,476) | (4,482) | (7,711) |
| 22 | Retail Customer Care Credit | - | - | (4,592) | (6,888) | (4,592) | (6,888) |
| 23 | | \$128,133,848 | \$124,881,655 | \$129,361,497 | \$126,998,460 | \$1,227,649 | \$2,116,805 |

⁸ Revenues Billed for the Compliance Filing reflect rates approved in Decision 2005-029, dated April 12, 2005.

The Board is satisfied that the above table captures the Board's Direction 13 adequately, and provides an update of forecast revenues based on rates approved in Decision 2005-029. The Board also notes that AUI's interim rates and 2005 deficiency rider were approved in Order U2006-41, dated February 21, 2006. Reconciliation of any variance between AUI's interim rates and final rates are expected to be addressed at AUI's next Phase II GRA.

3.5 Board Direction 16 (Reduction to forecast cost for maintenance contracts)

The Board concurs with the \$50,000 reduction in 2005 resulting from the absence of maintenance contracts due to the deferral of the implementation of the work management system from 2004 to 2005. Further, the Board directs AUI to reduce its forecast of maintenance contracts for both test years by an additional 10% based on its record of over-forecasting. The Board directs AUI to file these revisions in its compliance filing.

The Board approved a reduction of 10% for each of 2005 and 2006, in addition to a \$50,000 reduction in 2005. The CG submitted that AUI should reduce its 2005 by an additional \$5000 to comply with the Board's Direction 16. AUI argued that the reduction of 10% in Board Direction 16 is clearly only meant to apply to AUI's revised forecast for maintenance contracts i.e. after deduction of the \$50,000.

The Board concurs with AUI that the reduction of 10% in Board Direction 16 is meant to apply to AUI's revised forecast for maintenance contracts i.e. after deduction of the \$50,000. The Board, therefore, finds that AUI has complied with Direction 16.

3.6 Board Direction 21 (Adjustment to capitalization rate)

The Board agrees with the CG that a change in the capitalization rate for A&G needs further study to ensure that the appropriate cost driver for this change is salary. This study should include an assessment of the practices of other utilities on capitalization of A&G and the determination of appropriate cost drivers for A&G costs other than employee benefits. Until AUI demonstrates through a detailed study that salary is the appropriate cost driver for capitalization rates, the Board considers that maintaining the status quo of 35% is appropriate. The Board directs AUI to maintain the capitalization rate at 35% for 2006 and reflect this change in its compliance filing.

AUI indicated that it was uncertain whether it was expected in adjusting expenses, to perform the corresponding increase to capital. Without an adjustment to capital, the change in capitalization rate would be a disallowance of costs.

AUI understood Direction 21 to mean that AUI's Compliance Filing should reflect a reduction in expenses as a result of changing the capitalization rate from 30% to 35%. AUI believed that it was also the intent of Decision 2005-127 to reflect the impact of the change in the capitalization rate in capital. Therefore, AUI made an addition to capital in an amount equal to the reduction to expense. This has been reflected in the detailed schedules provided in this Compliance Filing.

AUI noted that, on page 25 of Decision 2005-127, the Board referred to an amount of \$131,700 as the amount of the adjustment to operating costs due the change in capitalization rates from 30% to 35% for 2006. It appeared to AUI that this amount was taken from the response to BR-AUI-8(a), which AUI has since determined was incorrect. AUI has determined that the actual amount of the adjustment to operating costs should have been approximately \$272,900.

This is calculated by taking the expenses eligible for capitalization of \$5,458,493 as shown in the response to CG-AUI-61(b) and multiplying it by 5% (35%-30%).

The Board notes that AUI has correctly interpreted the findings and directions related to the change in the 2006 forecast capitalization rates from 35% to 30%. It was not the Board's intention that compliance with its capitalization rate findings and Direction 21 would result in a disallowance of costs. Therefore, the Board finds that it was appropriate for AUI, in its Compliance Filing, to make an addition to capital to offset the reduction to expenses resulting from the reduction of the 2006 forecast capitalization rate from 35% to 30%.

The Board concurs with AUI that Board Direction 21 should have referenced CG-AUI-61(b) not BR-AUI-8(a).

Based on the foregoing, the Board is satisfied that AUI has complied with Direction 21.

3.7 Board Direction 23 (Exclusion of STIP compensation amounts)

While the Board recognizes that employees are a valued resource, especially for a small utility such as AUI, based on the above, the Board denies STIP compensation with targets that are to the benefit of shareholders (financial targets with net income weighted at 30% and operating expenses at 25%). In its compliance filing, the Board therefore directs AUI to exclude all amounts for STIP compensation for both the 2005 and 2006 test years that are based on financial targets and operating expenses (assumed to be 55%), and provide the supporting calculations used in the determination of the reduced forecast amounts for STIP compensation.

AUI stated that, in Section 7 of Decision 2005-127, it was directed to reduce its operating expenses by the 55% of STIP. However, AUI was uncertain about the treatment of capital and necessary working capital.

AUI interpreted the required reduction in STIP as a disallowance of costs and therefore has applied the following additional adjustments to its Compliance Filing:

- (a) A corresponding reduction to capital to reflect that no costs associated with the disallowed portion of STIP are being recovered by AUI; and
- (b) A corresponding increase to necessary working capital. Section 4.2 of Decision 2005-127 refers to a reduction AUI made to necessary working capital to reflect the impact of STIP (Exhibit 13-012). AUI has amended this reduction to reflect only the 45% of STIP that has been allowed by the Board.

The Board's denial of 55% of STIP was expected to cause a decrease in O&M expenses, a corresponding reduction to capital to reflect the disallowed portion of STIP that AUI capitalized, and a corresponding increase in necessary working capital.

The Board is satisfied that AUI has complied with the Board's Direction 23 regarding STIP and applied the required revisions to its 2005/2006 revenue requirement.

3.8 Board Direction 30 (LCT calculation)

The Board concurs that AUI should deduct a portion of the \$50 million capital deduction in calculating its LCT and adjust its revenue requirement accordingly. The Board considers that the capital deduction amounts should represent the percentage that AUI's aggregate taxable capital is of the total taxable capital of all corporations that it would be related to in 2005 and 2006, as would be determined in accordance with the provisions of the Income Tax Act, Chapter 1 (5th Supp.), R.S.C. 1985, as amended. Accordingly, the Board directs AUI to make the appropriate adjustments in its compliance filing.

In response to Board Direction 30, AUI included an amount for its share of the \$50 million in capital deduction as \$9,687,400 for 2005 and \$9,669,600 for 2006. However, the CG submitted that there was no supporting calculation for these numbers. The CG submitted that a schedule similar to that provided in Exhibit 13-041, and support for AUI's share of the \$50 million, would assist in evaluating the reasonableness of the proposed adjustment.

AUI agreed with the CG that there was an inconsistency between Exhibit 13-041 provided during the proceeding and AUI's Compliance Filing. AUI determined upon review that the schedule⁹ detailing the changes in the tax amount per the Compliance Filing was in error. The Compliance Filing should have incorporated the results provided in Exhibit 13-041. AUI submitted that its final revenue requirement reflected the proper amount for LCT. AUI attached details for this correction in Appendix A of the Compliance Filing.

The Board is satisfied that AUI has complied with the Board's Direction 30 regarding Large Corporate Tax.

3.9 Board Direction 32 (Changes in CCA rates)

The Board concurs with AUI that a deferral account is unnecessary, and directs AUI to reflect any changes in CCA rates in its compliance filing.

The CG noted that AUI has not filed detailed UCC continuity schedules, and hence the CG is not able to confirm compliance with this Board Direction. AUI submitted that detailed UCC continuity schedules are not required. Class 49 CCA rates have not been enacted.

The Board is satisfied with AUI's assurance that Class 49 CCA rates have not been enacted. Further, the Board is of the view that any variance in CCA rates forecast in the GRA and those enacted are unlikely to have a material impact on AUI's revenue requirement and therefore customers. The Board expects AUI to include updated CCA rates within its forecast revenue requirement in its next GRA.

Based on the foregoing, the Board considers AUI to have complied with Direction 32 in Decision 2005-127 regarding changes to CCA rate.

3.10 Board Direction 35 (Deemed debenture placeholder amounts)

Therefore, the Board approves a deemed debenture placeholder amount of 6.7% for the \$30 million principal amount for 2000 Debt that is to be refinanced in 2005. The Board directs

⁹ Schedule "Compliance Filing Adjustment Summary", page 3 of 5, Excel file name "2005-12-16 AUI 05-06 GRA PH1 Compliance Filing Adjustment Schedules.xls" tab "Tax"

AUI to reflect this revision in its compliance filing, and the 6% for the 2003 New Debt of \$30,000,000. Upon approval of AUI's debenture application, the Board directs AUI to reflect this change in its revenue requirement and apply any change in the cost of debt at its next GRA.

AUI submitted that it was unclear how AUI was expected to administer a change in the forecast 2005 and 2006 revenue requirements resulting from the Debenture Application (Application No. 1426643). AUI has applied a placeholder rate of 6.7% to the \$30 million 2005 new debt, which is reflected in the detailed schedules of this Compliance Filing. Upon approval of the \$30 million 2005 debenture application, AUI will calculate and defer the impact of any change between the 6.7% placeholder and the final approved cost rate. AUI expects that the deferred amount will serve as a pre-determined adjustment to be applied in the next GRA.

To clarify, the Board approved a deemed debenture placeholder amount of 6.7% for the \$30 million principal amount for 2000 Debt that was to be refinanced in 2005 with the expectation that AUI, at its next GRA, would reconcile any difference between the approved placeholder and a final approved cost rate in AUI's debenture application (Application No. 1426643).

The Board directs AUI at its next GRA to reconcile any difference between the placeholder rate of AUI's debenture and the Board's final approved rate for the 2005 and 2006 test years.

Based on the foregoing, the Board considers AUI to have complied with Direction 35 in Decision 2005-127 regarding deemed debenture placeholder amounts.

4 CONCLUSION

Subject to any changes resulting from the foregoing discussion, the Board is satisfied that AUI has complied with the Board's Directions from Decision 2005-127. Subject to any minor revisions arising from Section 3.2 of the Compliance Decision, the Board approves AUI's revenue requirement of \$33,122,475 in 2005 and \$33,412,217 in 2006, excluding the cost of gas.

5 ORDER

IT IS HEREBY ORDERED THAT:

- (1) AltaGas Utilities Inc.'s 2005 and 2006 Phase I Compliance filing and revenue requirement are approved as filed.

Dated in Calgary, Alberta on April 4, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

R. G. Lock, P.Eng.
Presiding Member

(original signed by)

Gordon J. Miller
Member

(original signed by)

M. L. Asgar-Deen, P.Eng.
Acting Member