



AltaGas Utilities Inc.

Request for Approval of Debenture Issue

May 24, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-049: AltaGas Utilities Inc.
Request for Approval of Debenture Issue
Application No. 1426643

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ALTAGAS UTILITIES INC.
REQUEST FOR APPROVAL OF DEBENTURE ISSUE**

**Decision 2006-049
Application No. 1426643**

1 INTRODUCTION

On October 31, 2005, the Alberta Energy and Utilities Board (the Board) received an application from AltaGas Utilities Inc. (AUI) pursuant to Section 26(2)(a)(ii) of the *Gas Utilities Act* (GUA), requesting authority and approval to issue to AltaGas Utility Holdings Inc.(AUHI) a 7.05% debenture in the principal amount of \$30,000,000. AUI stated that the issuance of the debenture is necessary to help maintain an appropriate level of capital structure and support capital investment.¹

AUI proposed that the 7.05% debenture would be issued in the principal amount of \$30,000,000 effective October 28, 2005 and would mature on October 4, 2010, with interest payable quarterly (the October 2005 Debenture). AUI submitted that the cost of debt was reasonable based primarily on a letter from RBC Capital Markets(RBC), dated October 26, 2005, that suggested a private placement of unrated debt for a non-investment grade utility would be approximately 6.50% to 7.00%.² The proposed issue of the AUI Debenture would have no effect on the control of AUI or on the voting power related to the shares of AUI.

On November 25, 2005, the Board distributed a Notice of Application that required any party who intended to participate in the proceeding to file a Statement of Intention to Participate by November 24, 2005. The Board indicated that it might continue processing the Application without further notice if no *bona fide* objections were received on or before November 24, 2005. The Board received interventions from the Office of the Utilities Consumer Advocate (UCA), Alberta Irrigation Projects Association (AIPA), and the Consumers Coalition of Alberta (CCA).

In a letter dated January 26, 2006, the Board set deadlines for Argument and Reply Argument of February 10, 2006 and February 24, 2006 respectively. The Board therefore considers the record for the proceeding closed on February 24, 2006.

2 BACKGROUND

In AUI's 2005/2006 Phase I General Rate Application (Application No. 1378000), AUI proposed a placeholder rate of 6.95% for the \$30 million principal amount of 2000 Debt to be refinanced in 2005. The Board approved, in Decision 2005-127, a deemed debenture placeholder amount of 6.7% for the \$30 million principal to be refinanced in 2005.

¹ Cover letter dated October 28, 2005, accompanying AltaGas Utilities Inc. Application.

² AltaGas Utilities Inc. Application, Exhibit B to the Affidavit of Patricia Newson, RBC Capital Markets Letter dated October 26, 2005

In Decision 2005-112 the Board approved, with conditions, the transfer of the shares in the capital stock of AUHI from the AltaGas Holding Limited Partnership No. 1 (the AltaGas Holding LP), to 6414958 Canada Limited (AltaGas Utility Group Inc.) as part of a larger transaction (the Transaction) involving a number of steps, ultimately resulting in the spin-off of AltaGas' distribution utility to become a subsidiary of AltaGas Utility Group Inc. (AUGI) which is to be a separate publicly traded company. In its approval of the Transaction, the Board stated that

AUHI shall cause AUI to fully address in AUI's next GRA and debenture application any changes in AUI's costs, service levels, contractual obligations, affiliate or shared service agreements or arrangements, changes in risk profile or capital structure, debt financing costs or provisions, or any other areas that may give rise to potential harm to AUI customers as a direct or indirect result of the Transaction, provided that the matters to be explored in the debenture application shall be limited to financial matters.³

3 IDENTIFICATION OF THE ISSUES

The Board has reviewed the information filed in respect of the Application and considers that the fundamental issue to be determined in the context of this Application is the appropriate rate to be applied to the October 2005 Debenture.

The Board notes that the submissions of AUI and AIPA/CCA discussed several matters that may have a bearing on the determination of an appropriate rate for the October 2005 Debenture. These included:

- Justification of October 2005 Debenture Rate;
- AUI's Credit Risk Premium;
- Risk Free Rate - Bank of Canada 5-year Bond;
- Issuance Costs; and
- Term of the Debenture.

The Board will consider the interplay between each of these matters and the fundamental issue as it proceeds to determine the appropriate rate for the October 2005 Debenture.

4 DISCUSSION OF THE ISSUES

The Board considers that there are a number of principles in Decision 2005-112 that should guide its review of the issues in this Application and, ultimately, the determination of an appropriate rate for the October 2005 Debenture.

The Board has utilized the no-harm test as a means to protect the public interest. The Board considers that in this instance, having regard for the "no-harm" concept would allow the Board to meet its public interest mandate by assessing the positive and negative aspects of AUI's transaction in order to ensure that customers are not adversely impacted by the characteristics of the transaction which has not been determined in the competitive marketplace.

³ Decision 2005-112 AltaGas Utility Holdings Inc. Request for Approval of Share Transfer, p. 9

Decision 2005-112 included a condition requiring AUI to fully address in its next debenture application any changes in any areas that could give rise to potential harm to AUI customers as a direct or indirect result of the Transaction, provided that the matters to be explored in the debenture application shall be limited to financial matters. The Board also expressed the view that “it is in the public interest that no costs arising directly or indirectly from the Transaction should be borne by AUI customers.”⁴ The Board considers that, in the context of this Application, the consideration of “no-harm” as articulated in the foregoing is an appropriate means of ensuring that the Board’s public interest mandate is met. The Board also stated in Decision 2005-112 that “Failure to adequately justify costs when weighed against the no harm test would therefore be to the risk of shareholders and not customers.”⁵ If the Board determines that AUI has failed to adequately justify its proposed debenture rate, then AUI’s requested rate is drawn into question and would then require further analysis by the Board.

The Board considers relevant to its assessment of an appropriate October 2005 Debenture rate certain statements previously made by AUHI with regards to Newco, now AUGI. In particular, AUHI stated that “Newco should have a similar debt rating and terms to AIT whereat customers would not be adversely impacted by the transaction.”⁶

4.1 Justification of October 2005 Debenture Rate

Based on AUHI’s implication that AUGI would have a debt rating and the Board’s statements in Decision 2005-112, the Board is of the view that AUI must clearly demonstrate that any incremental costs arising from the Transaction are justifiable and therefore should be borne by customers. Even if no increased costs are found to have arisen from the Transaction, the onus still remains on AUI to justify that the interest rate for which it seeks approval is just and reasonable.⁷ Accordingly, there is an onus on AUI to demonstrate that AUI’s applied-for October 2005 Debenture interest rate of 7.05% is no higher than it would have otherwise been in the absence of the Transaction and is just and reasonable.

When determining the appropriate October 2005 Debenture interest rate, the Board must assess whether or not AUI has adequately justified the cost of the debenture between related parties, the appropriateness of utilizing an inter-company loan, the debt environment the utility operates within, the credit risk premium of the utility, and risk free rate.

The Board notes that AIPA/CCA supported AUI’s use of an inter-company loan to finance its October 2005 Debenture. AUI argued that if AUI were to borrow \$30 million from capital markets, the most reasonable option would be a private placement. AUI submitted that a private placement was chosen over a public issuance because the costs associated with issuing public debt are very high. AUI argued that obtaining and maintaining a credit rating involves significant annual expenses thereby increasing AUI’s revenue requirement which is ultimately paid by customers in rates. AUI argued that for this reason, management has chosen not to have AUI access public debt markets directly for at least the last decade. AUI noted that the Board has consistently found this private placement practice to be prudent.

⁴ Decision 2005-112, p. 5

⁵ Decision 2005-112, p. 5

⁶ In a letter dated August 30, 2005, AltaGas Utility Holdings Inc. provided meeting minutes from August 24, 2005 with regards to Application 1408750- Request for Approval of Share Transfer, p. 2, and the Application, p. 2, paragraph 10;

⁷ *Public Utilities Board Act*, RSA 2000, c P-45, s. 103(3) and *Gas Utilities Act*, RSA 2000, c.G-5 s. 44(3).

Although the Board understands AUI's assertion that the cost of obtaining and maintaining a credit rating may be prohibitive given reporting requirements, the Board considers that AUI has not provided sufficient quantitative evidence to justify its conclusion that, in this instance, a private placement at 7.05% is more cost effective than pursuing public financing by establishing a credit rating. Approval of a debenture and its rate is predicated on the utility providing quantifiable evidence as to the merits of the debenture. AUI provided qualitative submissions in support for its proposed debenture rate, but did not provide sufficient quantitative evidence regarding matters such as a cost/benefit analysis of public versus private debt financing, the costs and benefits of establishing and maintaining a credit rating, evidence of fair market value, quantitative justification of the proposed credit risk premium, risk free rate or an explanation of all related debt, underlying terms, and financing costs between AUI, AUHI, and AUGI. The Board directs AUI to provide a detailed justification of future debt financing issuances in its next GRA or debenture application, including:

- an explanation of any limitations on market access by AUI due to the size and infrequency of its offering;
- cost/benefit analysis of public versus private debt financing;
- evidence of fair market value;
- justification of the underlying factors that support AUI's debenture rate: proposed credit risk premium, risk free rate, and issuance costs; and
- an explanation of all related debt, underlying terms, and financing costs between AUI, AUHI, and AUGI.

With regards to AIPA/CCA's suggestion that AUI's debt should be mirrored down from AUI's parent, the Board is of the view that this practice would generally be acceptable when the utility could not borrow at a lower cost on its own and when neither the regulated utility nor a non-regulated parent incurs significant costs or obligations arising from the transaction that would contravene cross-subsidization parameters within AUI's Inter-Affiliate Code of Conduct. The "mirroring down" approach involves reflecting (in the operating utility) the actual percentage costs of debt to the financing entity and assigning to the particular operating utility those dollars of debt from an individual debt issuance by the financing entity. By mirroring down the debt from the parent to the utility, customers are protected from potentially cross-subsidizing debt costs between the two entities. The Board, also, is mindful of its statement from Decision 2003-061:

The Board accepts that the underpinning of the standalone principle is that the regulated utility should not be subsidizing its non-utility operations or operations of members of its corporate family, neither should the non-regulated activities subsidize the utility operations.⁸

The Board notes that its position in Decision 2003-061 allows for the possibility of a parent utility charging a higher rate than its cost to the subsidiary utility in order to prevent a lower risk parent from subsidizing a higher risk utility subsidiary. However, in the Board's view this situation should only apply where the utility subsidiary has been shown to be clearly and materially more risky than the parent or if the applicant otherwise provided sufficient evidence that justified a higher rate. For example, if the parent's borrowing costs were lower by virtue of size and diversification, it would generally be appropriate for the utility to benefit from the parent's lower borrowing costs, since the utility contributes to that size and diversification.

⁸ Decision 2003-061, Altalink Management Ltd. and TransAlta Utilities Corporation Transmission Tariff, p. 82

In the case of AUI, the Transaction resulted in AUI no longer being a wholly-owned indirect subsidiary of AltaGas Income Trust (AIT). The Board notes that in response to information request BR-AUI-2(d), AUI maintained that AUI is not a subsidiary of AIT and that AUI does not have access to funds raised by AIT. There is no evidence in this proceeding regarding the extent to which, if any, the debt of AIT is or continues to be restricted to the business and financial risks of AIT. The Board notes that factors other than merely a contribution to corporate earnings stability may impact AIT's credit rating and differentiate it from AUI, including its size, its significantly higher equity ratio, diversification, and the utility and non-utility nature of its businesses.

Prior to the Transaction, given that AIT was a rated entity, AUHI was able to indirectly take advantage of public debt markets, through the ability of AIT to access such markets albeit that the effects of the utility and non-utility operations on the resulting rate realized were not provided. The situation following the Transaction is a departure from AUHI's suggestion that AUGI would be a rated entity.⁹ The Board considers a credit risk premium consistent with that of a BBB rated utility (similar to AIT) would be appropriate when determining the appropriate rate for AUI's October 2005 Debenture rate. However, the Board recognizes that because of the factors discussed above such as limited diversification, and infrequent and small size of debt issues, it may be reasonable to add an additional amount above this level to arrive at an appropriate credit risk premium. The Board considers that applying a credit risk premium in accordance with this approach would be consistent with achieving just and reasonable rates and would be in the public interest.

In support of the Application, AUI included a letter from RBC Capital Markets which indicated that RBC "would expect the market rate for a private placement for a non-investment grade utility would be approximately 6.50% to 7.00%".¹⁰ AUI provided a derivation of what it considered to be an appropriate rate based on these characteristics in AIPA/CCA-AUI-6(e). AUI also argued that the limited frequency and small debt principal required by AUI may make public debt markets less accessible than larger utilities and related issues.¹¹ AUI stated that a private placement of a non-investment grade utility requires a premium of 150 to 200 basis points above that of BBB mid credit offering. In all, AUI suggested that a spread in the range of 2.63%-3.13% was reasonable.¹²

AIPA/CCA argued that the findings of the rating agencies suggested that if the Board approved a standalone concept for AUI, the rating for AUI in isolation would carry a much stronger and favorable rating than that accorded to AIT or to AUGI. In view of the foregoing, the rating of BBB (low) by both DBRS and S&P¹³ to AIT would likely not be applicable to AUI. Hence, AIPA/CCA concluded that if the Board were to consider AUI as a standalone entity for purposes

⁹ In a letter dated August 30, 2005, AltaGas Utility Holdings Inc. provided meeting minutes from August 24, 2005 with regards to Application 1408750- Request for Approval of Share Transfer, p. 2, and the Application, p. 2, paragraph 10;

¹⁰ AltaGas Inc. Application Exhibit B to the Affidavit of Patricia Newson, RBC Capital Markets Letter dated October 26, 2006

¹¹ AIPA/CCA-AUI-4

¹² AUI Argument, p. 8

¹³ See also Response BR-AUI-2(c), pages 11-12; these ratings are confirmed as at May 22, 2005, following the announcement of the divestiture of AIT's natural gas distribution business, and as at Jan 6, 2006 press release the \$100 million issue of 4.41% MTN maturing Sep 1, 2010 by AIT.

of debt issuance, it should assign a deemed rating higher than that accorded to AIT. AIPA/CCA submitted that payment of the premium over the 4.41% rate is entirely unnecessary.¹⁴

AIPA/CCA further submitted that AUI as a regulated utility is obligated to secure debt financing that is just and reasonable and in the public interest. They also submitted that a tenet of utility regulation is that rates should be cost based, but that in this case, AIT (essentially the parent organization of AUI) had raised 5-year debt financing in August 2005 at a rate of 4.41% and in turn issued 5-year debt to an affiliated subsidiary, AUI, in October 2005 at a rate of 7.05%. AIPA/CCA noted that this rate results in a substantial premium of 2.64% over the rate paid by AIT. AIPA/CCA submitted the October 2005 rate of 7.05% is not cost based and should be denied by the Board.

The Board notes that neither AUI, AUGI, nor RBC were aware of any recent unrated private placement debt/bond offerings in the Alberta energy utility sector¹⁵, or any recent comparable utility bond issues that have a similar credit standing/rating as AUI or AIT.¹⁶ In AIPA-CCA-AUI-6(b), AUI submitted RBC's Energy Utility Sector Bond Financing Experience from 2003-2005 which showed a broad range in coupon rates and issue spreads for various utility and energy corporations. In 2005, 5-year debt offerings ranged from 3.95% to 4.41% in 2005.¹⁷ For 2005, the bond coupon rates (not limited to terms of 5-years) ranged from 3.95% to 5.67%, including 4.41% for AIT.

The Board is of the view that the bond and debenture rates of the companies included in AIPA-CCA-AUI-6(b) are indicative of the debt environment within which AUI operates. The Board considers that AUI's October 2005 Debenture rate should fall within the range of bond/debenture issues of the energy/utility companies provided in AIPA-CCA-AUI-6(b) and should tend towards the upper part of the range due to factors such as AUI's limited diversification, infrequent and small size of debt issues. The Board notes that AUI's applied-for debenture rate of 7.05% is significantly above the cost of financing of the sample group of energy and utility companies and therefore the Board is not prepared to accept AUI's applied-for rate.

The Board will utilize AIT's debenture rate as a reasonableness test when determining an appropriate credit risk premium and debenture rate for AUI. This is consistent with previous debenture rate determinations, in which the Board has stated:

Having reviewed this material, it appears to the Board that the issue has intrinsic value and does not represent obviously excessive or unreasonable expenditures.¹⁸

The Board also considers it should take into consideration any evidence that might be of assistance to the Board in determining just and reasonable rates to be paid by customers. In the case of AUI, the Board notes that AUI paid shared service costs associated with the Treasury function of its previous parent (AIT).¹⁹ The Board agrees with AIPA/CCA that to the extent AUI paid for certain costs related to the issuance of the medium term note by AIT (maturing on September 1, 2010), AUI should not be allowed to recover additional costs related to the credit

¹⁴ AIPA/CCA Argument, p. 7

¹⁵ BR-AUI-3(g)

¹⁶ BR-AUI-3(h)

¹⁷ AIPA/CCA – AUI 6(b)

¹⁸ U2003-074 (ATCO Gas & Pipelines Ltd.), Approval for Debenture Issue, p. 3

¹⁹ Response BR-AUI-18(j), 2005-06 GTA , Application No. 1378000

spread associated with it issuing such debentures. Having paid for these costs, the Board is of the view that customers should receive a tangible benefit via lower debenture rates. If not, utility customers would be cross-subsidizing the costs of AIT. Accordingly, the approved October 2005 Debenture rate should reflect this view, along with recognition that the Share Transfer Transaction has precluded AUI's access to public debt financing, thereby resulting in higher costs to customers.

For all of the foregoing reasons, the Board is of the view that AUI's proposed debenture rate is excessive when weighed against comparable debt/bond rates within the utility sector. Further, the Board considers that AUI did provide sufficient justification for a debenture rate of 7.05%, which the Board considers reflects a significant premium that arises, at least in part, due to the unrated investment grade of a private placement. This premium was a direct result of the Share Transfer Transaction and AUI no longer being able to access public debt financing through a credit rated parent. As such, any premium arising from the unrated status of AUI, AUHI, and AUGI constitutes harm to customers and leads to an excessive debenture rate and costs to customers. Therefore the Board is not persuaded that a private placement of a non-investment grade utility requires a premium of 150 to 200 basis points above that of BBB mid credit offering, especially in light of the shared services costs paid by the utility. The Board therefore considers AUI's 7.05% debenture to be excessive.

In the absence of any compelling evidence that justifies AUI's debenture rate and the premium attached to utilizing private placement financing versus public financing for AUI's debenture, the Board will now determine an appropriate rate for a debenture issued by AUI through an inter-company loan based on AUI's credit risk premium, Government of Canada 5-year bond, issuance cost, and term.

4.2 AUI Credit Risk Premium

In Decision 2005-127, the Board accepted AUI's use of a forecast 5-year Government of Canada bond at 4.8% and issuance costs of 0.15% as reasonable. However, the Board considered a credit risk premium in the lower end of the range of the forecast 175 – 200 basis points spread above the Government of Canada 5-year rate to be reasonable.²⁰ Given the lack of evidence in this proceeding justifying the requested debenture rate of 7.05%, the Board considers that the range of the utility/energy sector bond rates contained in AIPA-CCA-6(b), and the approved placeholder and credit risk premium from Decision 2005-127 provide an indication of an appropriate and reasonable cost of debt for AUI.

AUI indicated that given the small size of the debenture, liquidity, narrowness of distribution and unrated nature of the offering, indicative spreads for a BBB mid credit quality offering (similar to AIT) would be approximately 120 basis points to 130 basis points over 5-year Government of Canada bonds. AUI stated that the increased yield requirement for a non investment grade (BB(H)) "unrated" private placement would carry a premium of approximately 150-200 basis point spread to BBB mid quality levels resulting in indicative levels of approximately 6.5% to 7.0%.²¹

The Board considers applying a premium of 1.5-2.0% above that of a BBB mid credit rated utility is excessive given the costs incurred by customers for treasury services and the Board's

²⁰ Decision 2005-127, AltaGas Utilities Inc. 2005-2006 Phase 1 GRA, p. 36/37

²¹ AIPA-CCA-AUI-6(e)

rejection of AUI's argument that customers should bear the premium associated with financing through a private placement. The Board however considers a credit risk premium of 120 basis points, indicative of a spread for BBB rated offering, applied to the Bank of Canada 5-year bond (risk free rate) is reasonable. Further, as noted previously, the Board is of the view that it is reasonable that some additional amount be applied to the risk-free rate to reflect the various factors (for example, the small size of the issuance and the limited liquidity of the debenture offering) articulated by AUI in BR-AUI-2(d).

Therefore, in light of the foregoing, the Board is of the view that a credit risk premium of 150 basis points above the risk free rate (Bank of Canada 5-year bond) appropriately reflects the risks of the utility and the costs customers have paid to date for the treasury function, while also ensuring that customers remain unharmed by the Transaction.

4.3 Bank of Canada 5-year Bond (Risk Free Rate)

AUI submitted that the average of the October, November, and December 2005 monthly 5-year Canada Bond Benchmark yields was 3.87%. However, AUI noted that the Board held that interest rate updates were appropriate. In Decision 2006-004, the Board stated that:

The Board agrees with CG that it is appropriate for the Board to use the best information available to assess the debenture rate forecast. AG asserted that it would be inappropriate to consider an updated forecast because it would be using hindsight to assess the prudence of the forecast. The Board maintains that prospective forecasts should be assessed for reasonableness and that there is no presumption of prudence with respect to consideration of forecasts. The Board considers that the forecast debenture rate should be based on the updated Canada bond yield information. With respect to 2007, in the Board's view, the forecast for 2006 is also the best available forecast for 2007.²²

Since the time the Application was filed, the risk free rate has increased. For example, the 5-year Canada Bond Benchmark yield as of January 31, 2006 was 3.98%, and as of February 7, 2006 the yield has increased to 4.11%. The increase of the risk free rate further supports the reasonableness of the application. AUI submitted that the Board should take into account the increase in the risk free rate to be consistent with its approach noted above.

AIPA/CCA noted that the average for the 3 months prior to the date of the October 2005 Debenture (July, August and September 2005) was 3.43%.²³ AIPA/CCA argued that these three months are more relevant to the consideration of appropriate debt costs, given that the October 2005 Debenture is dated October 2005.

The Board however considers that the risk free rate to be applied in determining AUI's debenture rate should reflect the actual Bank of Canada 5-year bond rate effective October 3, 2005 (the first working day of October), the date which the 2000 debt becomes due and 2005 principal is refinanced.²⁴ The Board therefore approves a risk free rate of 3.64%, which is consistent with the month-end Government of Canada rates between September and October 2005.²⁵

²² Decision 2006-004: ATCO Gas 2005-2007 General Rate Application Phase I, p. 39

²³ Bank of Canada website, as cited in AIPA/CCA Argument, p. 16

²⁴ BR-AUI-21(c)(ii), AltaGas Utilities Inc. 2005/2006 Phase 1 GRA, Application No. 1378000

²⁵ AIPA-CCA-AUI-6(d)

4.4 Issuance Costs

AUI submitted that AUGI and AUHI provide significant administrative contributions to the placement of AUI's debt. AUI submitted that there is a clear market value for the issuance cost and the administration of each specific debt placement and that this value amounts to 30 basis points to the total cost of the October 2005 Debenture.²⁶

AIPA/CCA recommended that issue costs be deemed to be 17 basis points (the same level as those incurred by AIT in the issuance of the \$100 million issue in 2005).

In BR-AUI-2(d), AUI explained that applying the issuance costs associated with AIT's medium term note would add a 56 basis point increase to the October 2005 Debenture due to the small size of issuance.

The Board agrees with AUI that issuance costs associated with a larger debenture results in a smaller basis point increase in the overall financing rate than would occur in a smaller issuance. The Board is not persuaded by AIPA/CCA's submission that applying a basis point increase to AUI based on AIT's financing costs is appropriate. The Board accepts as reasonable AUI's explanation of its estimated issuance costs of 30 basis points.²⁷ The Board therefore approves AUI's issuance costs of 30 basis points.

4.5 Term

AUI submitted that the 5-year term of the October 2005 Debenture is reasonable and prudent. Since 2000, AUI has utilized 5-year medium term notes and submitted that they represent a good balance of rate and term, providing stability to capital structure at reasonable cost. A 5-year term results in a lower overall rate because the risk free rate and credit spread are lower for shorter term financing. Over the long term AUI argued that this avoids paying the higher credit spread and risk free rate associated with longer term financings.

The Board concurs with AUI that, at this time, the 5-year term is reasonable and represents a good balance of rate and term. The Board notes that interveners did not oppose the term of the October 2005 Debenture but raised concerns about the potential cost implications of a short term debenture versus a longer term issuance. AIPA/CCA suggested that a review of the applicability of utilizing debentures with terms of 5 years, 10 years and 20 years is warranted to assess the cost implications and spread risk differentials on customers. AUI however noted the following comments of the Board from Decision 2006-004:

There are many factors that help to determine the appropriate term of debt, and that it would be difficult for the Board to provide direction to the utility with regard to this matter. Based on this consideration, the Board is also of the view that it is logical and fair that the utility should be in control of its financing plan, and in turn should be allowed to determine the appropriate term of debt for new debt issues.²⁸[Emphasis added]

The Board concurs with the findings from Decision 2006-004. The Board therefore considers a more extensive review of the term to be unwarranted.

²⁶ AUI Reply Argument, p. 14

²⁷ BR-AUI-1(c)

²⁸ Decision 2006-040, ATCO Gas 2005-2007 GRA , p 40; See also, Decision 2003-072, p. 147

4.6 Conclusion

Based on the foregoing, the Board approves AUI's 5-year debenture at a rate of 5.44%, which is calculated as follows:

5-yr Bank of Canada (risk free rate)	3.64%
Credit Risk Premium	1.50%
Issuance Costs	<u>.30%</u>
	5.44%

The debenture rate approved in this decision is to replace the 2005 and 2006 test year placeholder approved by the Board in Decision 2005-127. The Board directs AUI in its next GRA to reflect any variance between the placeholder and the rate for the October 2005 Debenture approved by this Decision.

The Board considers that AUI is complying with the requirements of section 26(2)(a) of the GUA and is satisfied with the purposes of the issuance of the Debenture and is satisfied that the issuance will be made in accordance with legislated requirements.

5 ORDER

IT IS HEREBY ORDERED THAT:

- (1) AltaGas Utilities Inc. (AUI) is authorized, pursuant to Section 26(2)(a)(ii) of the *Gas Utilities Act*, to issue to AltaGas Utility Holdings Inc.(AUHI) the October 2005 Debenture at a rate of 5.44% and in the principal amount of \$30,000,000, replacing the Placeholder from Decision 2005-127 effective October 4, 2005.
- (2) AltaGas Utilities Inc. is directed at its next GRA to credit customers any difference between the debenture placeholder in Decision 2005-127 and the debenture rate approved in this Decision.
- (3) AltaGas Utilities is directed to provide a detailed justification of future debt financing issuances in its next GRA or debenture application, including:
 - an explanation of any limitations on market access by AUI due to the size and infrequency of its offering;
 - cost/benefit analysis of public versus private debt financing;
 - evidence of fair market value;
 - justification of the underlying factors that support AUI's debenture rate: proposed credit risk premium, risk free rate, and issuance costs; and
 - an explanation of all related debt, underlying terms, and financing costs between AUI, AUHI, and AUGI.

Dated in Calgary, Alberta on May 24, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

Gordon Miller
Member

(original signed by)

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