


MADE at the City of Calgary, in the Province of Alberta, on 15th day of October 2004.	ALBERTA I 
AltaGas Utilities Inc. 2003 - 2004 GRA – Phase I Compliance Filing	Application No. 1357324 Application No. 1355416

1 INTRODUCTION

On August 17, 2004, AltaGas Utilities Inc. (the Company or AUI) filed its compliance filing (Application No. 1357324) pursuant to the Alberta Energy and Utilities Board's (the Board) Decision 2004-063 regarding AUI's 2003/2004 Phase I general rate application (GRA), dated August 3, 2004. The Company was instructed to apply the generic return on equity and capital structure, as determined in Decision 2004-052, dated July 2, 2004, to the 2004 test year forecasts, incorporate the results into the placeholder, and advise the Board as to the appropriate amount within two weeks of the date of that Decision.

In a letter dated September 16, 2004, the Board indicated that the compliance filing (Application No. 1355416) from Decision 2004-052, contains some evidence similar to AUI's compliance filing related to Decision 2004-063. To avoid any duplication, the Board indicated it would issue a compliance decision dealing with both compliance filings.

2 BACKGROUND

On August 24, 2004, the Board issued a Notice of Application regarding AUI's compliance filing from Decision 2004-063, AUI's 2003/2004 Phase I general rate application. In Decision 2004-063, the Board approved the Memorandum of Agreement (MOA) and Negotiated Settlement (the Agreement) reached between AltaGas Utilities Inc. and customers for the Phase I portion of AUI's 2003/2004 GRA. The Board requested that parties to the proceeding review the compliance filing and submit any comments to the Board, no later than September 3, 2004.

In a letter dated September 1, 2004, the Consumers Group (CG) submitted that AUI failed to apply the revised Alberta Corporate tax rate and reductions to the Capital Cost Allowance (CCA). Further, the Board noted that AUI indicated in its compliance filing to Decision 2004-052 that it did not expect to have final rates for the 2003/2004 test years in place prior to December 31, 2004. As a result, AUI submitted that the allowed 2003/2004 revenue deficiencies should be collected from customers through a deficiency rider administered in 2005. CG reiterated its concerns in a further letter dated September 29, 2004.

The Board requested parties to submit any comments by September 20, 2004, if parties had any specific concerns regarding the recovery of 2003/2004 revenue deficiencies via a deficiency rider administered in 2005. The Board received a submission from CG dated September 20, 2004, in support of AUI's request that the allowed 2003/2004 revenue deficiency should be collected from customers through a deficiency rider administered in 2005.

The Board received AUI reply to CG's submission on September 27, 2004.

3 PARTICULARS OF THE APPLICATION

The Company's approved rate of return on common equity for 2004 was 9.6%, with a 59:41 debt-to-equity capital structure. The MOA and Agreement used as placeholders, in anticipation of a decision from the Generic Cost of Capital proceeding, 9.5% as a return on common equity and 59:41 as the debt-to-equity capital structure. The only adjustment required was a 0.1% increase to the rate of return on common equity for 2004, which amounts to an increase in revenue requirement of \$56.6 thousand.

On November 25, 2003, the Board issued Decision 2003-090, dated November 25, 2003, approving the interim refundable rates as proposed as well as the proposal to harmonize the Bonnyville service area rates with the rest of the Company's service areas.

The 2003/2004 MOA was based on rates in effect prior to the interim rates. AUI indicated that the dollar impact of the interim rates, that came into effect December 1, 2003 and which are expected to continue through 2004, increased forecast revenues by \$9.8 thousand in 2003 and reduces forecast revenues by \$5.5 thousand in 2004.

In combination, the Generic Cost of Capital decision and the interim rates necessitate adjustments to the 2003 and 2004 forecast revenue deficiencies (excesses) as follows:

Revenue Deficiency (000's)	2003 Forecast	2004 Forecast
Per Memorandum of Agreement	\$ 2.2	\$ 608.8
<i>Adjustments:</i>		
Generic Cost of Capital Decision 2004-052	-	56.6
Interim Rates Decision 2003-090	(9.8)	5.6
Adjusted Revenue Deficiency	\$ (7.6)	\$ 671.0

AUI submitted that the allowed 2003/2004 revenue deficiencies should be collected from customers through a deficiency rider administered in 2005.

4 VIEWS OF THE PARTIES

CG

CG submitted that AUI failed to apply the revised Alberta Corporate tax rate, which was reduced to 11.50% (commencing April 1, 2004) making the effective 2004 Alberta Corporate tax rate 11.75% (12.50% for 3 months and 11.50% for 9 months). CG recommended that the Board direct AUI to use the reduced Alberta Corporate tax rate of 11.75% for 2004 in its compliance filing so that it can be dealt with in the Phase II application. CG submitted that based on Section k of the MOA regarding AUI's 2003/2004 Phase I, AUI and customers agreed that:

...any income tax rates pertaining to the test period are substantially changed before the completion of Phase 2 of this Application, the Company will adjust the calculated revenue deficiency/surplus for the affected test period. Any substantial change in income tax rates pertaining to the test period enacted after Phase 2 proceedings have completed will be dealt with as a deferred item at the time of the Company's next General Rate Application.

CG further noted that the March 23, 2004 Federal Budget announced reductions to the CCA rate for Class 10 assets, increasing the capital cost allowance rate for computer equipment to 45 per cent from 30 per cent, and the rate for broadband, Internet and other data network infrastructure equipment to 30 per cent from 20 per cent. In CG's view, these changes in the CCA rate should also be reflected in the Company's 2004 compliance filing so that it can be dealt with in the Phase II application. CG submitted that the intent of Section k of the MOA was to capture changes in any rates that affect the income taxes to be paid.

AUI

Regarding matters raised by CG in its letter of September 1, 2004, AUI noted that although the monetary impact to the filing was small (approximately \$40 thousand), the Company agreed with the proposal to update the 2004 revenue requirement and revenue deficiency with the change in the Alberta Corporate tax rate. As noted by the Board, parties to the MOA agreed to adjustments arising from a change in income tax rates. However, the Company submitted that it did not interpret the MOA to include changes in CCA rates and therefore, revisions should be limited to only the change in the Alberta Corporate tax rate. Further, based on comments received from CG on September 20, 2004, AUI submitted it appeared there was consensus on the suggestion that the 2003/2004 revenue deficiency should be collected through a deficiency rider.

Regarding compliance with Decision 2004-063, AUI indicated that confirmation that the Company incorporated the allowed rate of return on common equity and capital structure in a manner consistent with that approved by Decision 2004-063 would be of particular assistance to the Company. That, and direction with regard to the matters raised by CG, would put the Company in a position to finalize revenue requirement and revenue deficiencies/excesses for the 2003 and 2004 test periods.

5 BOARD FINDINGS

The Board notes that AUI agreed with CG's submission that the change in the Alberta Corporate tax rate should be updated in the 2004 revenue requirement and revenue deficiency as per

Section k of the MOA. The Board thereby directs AUI to update the 2004 revenue requirement and revenue deficiency to reflect the change in the Alberta Corporate tax rate as per the MOA.

However, the MOA does not specifically address changes in CCA rates as part of the Agreement. Section k of the MOA only mentions changes in income tax rates. Based on a review of the MOA, the Board does not consider that there is anything to indicate that changes to CCA rates were intended to be included. Therefore, the Board considers no adjustment is warranted as a result of the Federal Budget announcement of March 23, 2004 which reduced the CCA rate for Class 10 assets, increasing the capital cost allowance rate for computer equipment to 45 per cent from 30 per cent, and the rate for broadband, Internet and other data network infrastructure equipment to 30 per cent from 20 per cent. The Board expects that AUI will reflect updated CCA rates in future revenue requirement applications.

The Board is satisfied that AUI has correctly incorporated the allowed rate of return on common equity and capital structure as per Decision 2004-063.

The Board notes that the 2003/2004 MOA was based on rates in effect prior to the interim refundable rates, which were approved by the Board in Decision 2003-090 and effective December 1, 2003. AUI indicated that the dollar impact of the interim refundable rates, increased forecast revenues by \$9.8 thousand in 2003 and reduced forecast revenues by \$5.6 thousand in 2004. The Board is of the view that the 2003/2004 revenue adjustments related to Decision 2003-090 are appropriate.

Therefore, the Board approves AUI's compliance filing, with the expectation that AUI will update its 2004 revenue requirement and revenue deficiency to incorporate the revised Alberta Corporate tax rate. The Board directs AUI to reflect these changes in revised schedules in its 2003/2004 Phase II GRA application.

6 ORDER

THEREFORE IT IS ORDERED THAT:

- 1) The Board approves AUI's compliance filing, with the expectation that AUI will update its 2004 revenue requirement and revenue deficiency to incorporate the revised Alberta Corporate tax rate.
- 2) The Board directs AUI to reflect the revised Alberta Corporate tax rate in AUI's 2003/2004 revenue requirement in the revised schedules in its 2003/2004 Phase II GRA application.

END OF DOCUMENT