



AltaGas Utilities Inc.

**2003/2004 General Rate Application
Phase I**

**Request for Approval to Commence a
Negotiated Settlement Process**

July 29, 2003

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2003-060: AltaGas Utilities Inc.

2003/2004 General Rate Application – Phase I

Request for Approval to Commence a Negotiated Settlement

Application No. 1305995

Published by

Alberta Energy and Utilities Board

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ALTAGAS UTILITIES INC.
2003/2004 GENERAL RATE APPLICATION
PHASE I – REQUEST FOR APPROVAL TO
COMMENCE A NEGOTIATED SETTLEMENT**

**Decision 2003-060
Application No. 1305995
File No. 1402-12**

1 INTRODUCTION

The Alberta Energy and Utilities Board (the Board) is in receipt of AltaGas Utilities Inc.'s (AltaGas, AUI, or the Company) 2003/2004 Phase I General Rate Application (the Application) filed with the Board on June 27, 2003.

AltaGas intends to negotiate matters contained in the Application with representatives of customer groups, with the objective of achieving a settlement agreement for all components of the Phase I portion of its 2003/2004 General Rate Application (GRA) to be presented to the Board for review and consideration, with exception to the 2004 rate of return on common equity and capital structure.

In accordance with the Board's Negotiated Settlement Guidelines (Revised IL 98-04), the Company sought the Board's approval to commence the process.

2 PARTICULARS OF THE APPLICATION

AltaGas requested approval to commence negotiations regarding all aspects of the Phase I Application, including:

- 2003/04 Revenue requirement
- Capital additions and rate base
- 2003 Capital structure and rate of return
- Operation and Maintenance expenses
- Taxes, other than income
- Net depreciation expense
- Income taxes
- Utility revenue on existing rates and revenue shortfall

With respect to cost of capital and capital structure, AltaGas indicated that it wished to negotiate a settlement with its customer representatives for 2003, but that for 2004 AltaGas preferred the 2004 Placeholder approach to deal with return on equity until the outcome of the Generic Cost of Capital Proceeding is known.

Under currently approved sales and transportation rates, AltaGas projected revenue deficiencies of \$1,028,357 and \$2,271,280 for 2003 and 2004 respectively. The Company included a table in its application that summarized the major factors that have changed from the amounts allowed for 2002 by the Board in Decisions 2002-027, dated April 12, 2002, and 2002-067, dated August 6, 2002:

	2003	2004
Increased (Decreased) Operating Expense	\$1,864,246	\$2,848,555
Increased Depreciation Expense	\$230,810	\$568,510
Increase (Decreased) Return	(\$77,535)	\$225,581
Income & Other Taxes	<u>(\$301,446)</u>	<u>(\$313,268)</u>
	\$1,716,075	\$3,229,378
Less: Increased Gross Margin and Other Revenues	<u>\$687,718</u>	<u>\$1,058,099</u>
Revenue Deficiency	\$1,028,357	\$2,271,280

The Company submitted that it would file, in support of this Application, direct evidence with respect to depreciation in time for the proposed negotiated settlement process and that this evidence would be included as part of the Company's complete settlement package to the Board should an agreement be reached.

The Company proposed to defer filing of a specific proposal for the Phase II process until the Phase II portion of its 2000/2001/2002 General Rate Application has been completed. AltaGas indicated that it intends to file a fully allocated cost of service study in support of a Phase II application for approval of revised sales and transportation rates at that time.

3 BACKGROUND

On March 28, 2001, the Board issued Decision 2001-24 approving the merger of AltaGas Utilities Inc and Bonnyville Gas Company Limited based on an application filed by the Utilities on March 1, 2001.

In Decision 2002-027 the Board approved a Memorandum of Agreement (the MOA) with interested parties. In the MOA, the parties indicated that an agreement had been reached on all issues raised in the Phase I portion of the GRA with the exception of Rate of Return on Common Equity/Capital Structure and Post-Employment Benefits, which the Board determined after a public hearing. The Board directed AltaGas to refile detailed schedules, incorporating the Board's findings in Decision 2002-027.

In Decision 2002-067, the Board approved the revenue requirements for 2000, 2001, and 2002. The Decision set the revenue requirements on a non-consolidated basis for 2000 and on a consolidated basis for 2001 and 2002.

On November 15, 2002, AltaGas filed its 2000/2001/2002 Phase II General Rate Application. On January 14, 2003, AltaGas and interested parties began Negotiated Settlement discussions regarding Phase II for 2000/2001/2002.

In Decision 2003-024, dated March 25, 2003, the Board approved AUI's method of allocation of revenue excess/deficiency for the year 2000 and proceeds of sales based on the former separate utilities and service areas; and the allocation of 2001 and 2002 revenue excess, as well as tax savings, on a company-wide basis, as proposed by AUI. The Board directed AUI to refund the net of revenue excess/deficiency and other gains totaling \$3.51 million based on AUI's calculated refund rates proposed in the Application as a one-time credit on bills processed in April 2003's billing cycle.

In Decision 2003-024, paragraph (3) of the Board Order directed AltaGas to file a reconciliation report of the total dollars distributed to customers on or before June 30, 2003. The report provided a reconciliation of the distribution of the funds and indicated that, as of June 25, 2003, \$80,259 remained to be distributed out of a total of \$3,508,151. On June 26, 2003, AltaGas proposed to roll the remaining balance after the distribution into the determination of the 2003/2004 GRA revenue deficiency/excess. Given the materiality of the funds remaining to be distributed, the Board approved the proposal.

AltaGas filed an application on May 22, 2003, requesting approval of interim refundable rates, and terms and conditions of service for the Bonnyville service area. The new rates would affect Rate 1 and Rate 2 customers and would be identical to those being used in the balance of the AltaGas service area. The Board, in Decision 2003-052, dated July 2, 2003, denied the application.

The Board agreed with the submission of the Consumers' Coalition of Alberta that rate increases, then decreases, could result from the application. The Board also determined that since the prior period Phase II was still being negotiated it would be premature to approve postage stamp rates.

4 VIEWS OF THE BOARD

The Board is committed to the negotiated settlement process as part of its objective of achieving greater regulatory efficiency and effectiveness. Negotiated settlements provide an alternative or complementary process to the traditional hearing process in dealing with utility-related issues such as tolls, tariffs, and terms and conditions of service. The Board believes that the negotiated settlement process can enhance meaningful public participation and encourages stakeholders to make greater use of this process.

The Board considers that based on previous experience it is unlikely that AltaGas's interested parties would be opposed to attempting to negotiate a settlement of Phase I issues for 2003/2004. In this regard, the Board notes that AltaGas was able to reach a Settlement Agreement with interested parties on the Phase I portion of its last GRA, which included the 2000, 2001, and 2002 test years. In Decision 2002-067 the Board approved the revenue requirements for 2000, 2001, and 2002. The Board also notes that AltaGas and interested parties are currently participating in a negotiated settlement process on the Phase II portion of the 2000/2001/2002 GRA.

For the foregoing reasons, the Board grants approval to AltaGas to negotiate with interested parties the components of the Phase I portion of its 2003/2004 GRA set out in its Application dated June 27, 2003. With respect to cost of capital and capital structure, AltaGas indicated in its application that it wished to negotiate a settlement with its customer representatives for 2003, but that for 2004 AltaGas preferred the 2004 Placeholder approach to deal with return on equity until the outcome of the Generic Cost of Capital Proceeding is known. The Board expects AltaGas to file with the Board a proposal for 2004 placeholders for return on equity and cost of capital at the same time as it files the Negotiated Settlement. The Board expects AltaGas and interested parties to comply with the Negotiated Settlement Guidelines as the process progresses. Prospective ratemaking is an underlying objective of the Board, and an efficient and effective settlement process for the Phase I portion of AltaGas' 2003/2004 GRA is strongly encouraged.

Generally speaking, the Board is of the view that it is appropriate for the Board in carrying out its public interest mandate to fully examine the operations of a utility from time to time by holding a full GRA to ensure rates, charges and terms and conditions of service are just and reasonable.

For example, in Decision 2001-14,¹ the Board noted its concerns with the length of time, approximately seven years, that had elapsed since the last litigated ATCO Electric GRA, and provided notice to parties that the issue of the appropriate length of negotiated settlements would be reviewed by the Board in the future. The Board noted that a litigated proceeding has the advantage of calibrating the revenue requirement in an open, public process. The Board also noted that over time it is reasonable to expect significant changes in the operations and financing of a utility.

The Board notes that AltaGas has not been subject to an extensive examination on its GRA since 1996.² The Board also notes that the 2000/2001/2002 GRA did not afford an opportunity for the Board to perform a detailed examination of all Phase I issues, as AltaGas reached a Phase I negotiated settlement, with the exception of Rate of Return on Common Equity/Capital Structure and Post-Employment Benefits issues.

For the foregoing reasons, with respect to AltaGas's next test years, the Board will expect AltaGas to file a full General Rate Application to be examined at a Board hearing.

In section 8.1 of the Board's revised Negotiated Settlement Guidelines (IL 98-04), the role of Board staff is outlined as follows:

EUB staff may serve as observers or as mediators for the negotiated settlement or a portion of the settlement. In either event, staff involved in the negotiated settlement process will not participate in proceedings by the Board arising from or relating to any issue without the express written consent of all parties to the negotiations. Staff will, however, be permitted to advise the Board as to the fairness of the process without obtaining the consent of the parties.

¹ 2001-14, ATCO Electric Ltd., 2001-2002 Distribution Tariff Application Part B: Phase I Distribution Tariff Revenue Requirement.

² Board Decision U96116, dated December 16, 1996, approved rates, tolls and charges effective for all consumption on and after January 1, 1997.

To ensure that the Negotiated Settlement process is conducted in an open and fair manner, the Board will appoint a Board staff observer for the Phase I portion of AltaGas' 2003/2004 GRA Settlement discussions.

The Board will distribute to AltaGas and interested parties a Notice of Application and Negotiated Settlement Process in due course.

5 ORDER

IT IS HEREBY ORDERED THAT:

- (1) AltaGas's Application dated June 27, 2003, requesting approval to commence negotiations with respect to all components of the Phase I portion of the 2003/2004 GRA except the 2004 rate of return on common equity and capital structure is approved.

Dated in Calgary, Alberta on July 29, 2003.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

Gordon J. Miller
Board Member

(original signed by)

J. Gilmour
Acting Member