Decision **2013-395**

Alberta Utilities Commission

# AltaGas Utilities Inc.

## Application Requesting a Load Balancing Deferral Account and Rate Rider L for Compliance with AUC Rule 028

**October 31, 2013**

**The Alberta Utilities Commission**
Decision 2013-395: AltaGas Utilities Inc.
Application Requesting a Load Balancing Deferral Account and Rate Rider L for Compliance with AUC Rule 028
Application No. 1609829
Proceeding ID No. 2772

October 31, 2013


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**The Alberta Utilities Commission**
**Calgary, Alberta**

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## 1 Introduction

1. AltaGas Utilities Inc. (AUI or AltaGas) filed an application with the Alberta Utilities Commission (the AUC or the Commission) requesting approval to establish a load balancing deferral account (LBDA) and associated rate rider, Rate Rider L (Rider L). AUI requested that the LBDA and Rider L take effect in time to correspond with the implementation of its natural gas settlement system on November 1, 2013.[1]

2. AUI previously[2] identified three items requiring approval from the Commission, resulting from the implementation of AUI's new Natural Gas Settlement System Code processes. These three items, which AUI also included in the current application,[3] are required to facilitate compliance with AUC Rule 028: *Natural Gas Settlement System Code Rules* (AUC Rule 028) and to coincide with implementation of the company's web portal (NPortal). NPortal is AUI's electronic interface that enables retailers to monitor imbalances, perform account balancing and submit nominations. The three items are:

- LBDA and Rider L: AUI has proposed a LBDA and associated rider mechanism to facilitate the tracking and recovery or refund of revenues and expenses associated with load balancing. This proposal is the subject of the current application, filed on August 9, 2013.

- Terms and conditions (T&Cs): AUI's current T&Cs are based on the existing monthly financial settlement model. AUI has proposed amendments to its T&Cs to correspond with the daily in-kind settlement calculations prescribed under AUC Rule 028. AUI's proposed amendments to its T&Cs were approved in Decision 2013-392.[4]

- Unaccounted-for gas (UFG) rate rider: AUI's current UFG Rate Rider E is calculated as a percentage of gas receipts. AUI requested approval for a second UFG rate rider, Rate Rider H, that calculates UFG as a percentage of gas deliveries, to correspond with AUI's

[1] Decision 2013-339: AltaGas Utilities Inc., Application for Extension to Exemption from compliance with AUC Rule 028, Application No. 1609741, Proceeding ID No. 2700, September 10, 2013.
[2] Application No. 1609741, Proceeding ID No. 2700, AUI Compliance Filing to AUC Decision 2012-189 and Application for a Further Exemption from the Requirements of AUC Rule 028 Pursuant to AUC Decision 2011-346, paragraph 6.
[3] Exhibit 3, AUI application, paragraph 2.
[4] Decision 2013-392: AltaGas Utilities Inc., Application Requesting Revisions to Terms and Conditions of Service for Compliance with AUC Rule 028, Application No. 1609810, Proceeding ID No. 2754, October 30, 2013.

natural gas settlement system calculations and its T&Cs under AUC Rule 028. Rate Rider H was recently approved in Decision 2013-367.[5]

3. On August 12, 2013, the Commission issued a notice of application on AUI's request to establish a LBDA and the associated Rider L. Any party who wished to intervene in this proceeding was required to submit a statement of intent to participate (SIP) to the Commission by August 19, 2013. SIPs were received from the Consumers' Coalition of Alberta (CCA) and Direct Energy Regulated Services (DERS) by the submission deadline, and from ATCO Gas, a division of ATCO Gas and Pipelines (AG) on September 6, 2013.

4. In its SIP, the CCA requested the opportunity to test the application with information requests before commenting on whether it objects to the application. DERS submitted that it intended to monitor the proceeding as an interested stakeholder. AG stated that the extent of its participation is unknown at the time of filing its SIP.

5. By letter dated August 22, 2013, the Commission established the following process and schedule:

| **Process step** | **Deadline dates** |
|---|---|
| Information requests to AUI | August 29, 2013 |
| Responses to information requests from AUI | September 6, 2013 |
| Argument | September 16, 2013 |
| Reply argument | September 23, 2013 |

6. The Commission considers the record of the proceeding closed on September 23, 2013, as no further process was required.

7. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

# 2 Background

## 2.1 Natural Gas Settlement System Code

8. In AUC Bulletin 2011-11,[6] issued on April 1, 2011, the Commission announced the approval of AUC Rule 028, which came into effect on April 4, 2011. All natural gas market participants operating in Alberta are required to comply with AUC Rule 028. In Bulletin 2011-11, the Commission temporarily delayed enforcement of AUI's compliance with certain sections of AUC Rule 028 and directed AUI to file an application for any required exemptions.

[5] Decision 2013-367: AltaGas Utilities Inc. Application Requesting a New Rate Rider H (Unaccounted-for Gas) for Compliance with AUC Rule 028, Application No. 1609767, Proceeding ID No. 2721, September 27, 2013.

[6] Bulletin 2011-11, AUC Rule 028 (Version 1.0) *Natural Gas Settlement System Code Rules*, April 1, 2011.

9. In Decision 2011-346,[7] the Commission approved a temporary six-month exemption from certain sections of AUC Rule 028. In Decision 2012-189,[8] the Commission approved a further exemption from compliance with certain sections of AUC Rule 028 and directed AUI to implement phase one of its natural gas settlement system by December 14, 2012. AUI was also directed to file an application consisting of its phase two implementation plan for the natural gas settlement system with the Commission by December 1, 2012, which was later extended to December 19, 2012.[9]

10. In Decision 2013-072,[10] the Commission approved an increase in project funding associated with AUI's request to extend the implementation date for phase two of the natural gas settlement system from March 15, 2013 to September 1, 2013.[11]

11. In Decision 2013-084,[12] the Commission approved AUI's plan for phase two of the natural gas settlement system to be implemented September 1, 2013.

12. The Commission approved an additional extension to its exemption from compliance with certain sections of AUC Rule 028 in Decision 2013-339. The implementation date for phase two of AUI's natural gas settlement system was extended from September 1, 2013, to November 1, 2013.

### 2.2 History of AUI and AG load balancing deferral accounts and rate riders

13. The Commission's predecessor, the Alberta Energy and Utilities Board (the board or EUB) defined load balancing in Decision 2001-75,[13] at page 108:

> Load balancing is part of the physical operation of the gas system, whereby gas supplies are adjusted to maintain the correct operating pressure in the gas system.

14. Sections 4(1)(c) and 4(1)(i) of the *Roles, Relationships and Responsibilities Regulation* AR 186/2003 under the *Gas Utilities Act*, RSA 2000 c. G-5, requires AUI, as a gas distributor, to arrange for adequate upstream transmission capacity for all its distribution customers and to perform load balancing on its gas distribution system.

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7 Decision 2011-346: AltaGas Utilities Inc., Natural Gas Settlement System Code Rules Exemption Application, Application No. 1607324, Proceeding ID No. 1236, August 23, 2011.

8 Decision 2012-189: AltaGas Utilities Inc., Application for a Further Exemption from the Requirements of AUC Rule 028 Pursuant to Alberta Utilities Commission Decision 2011-346, Application No. 1608205, Proceeding ID No. 1746, July 18, 2012.

9 Application No. 1608940, Proceeding ID No. 1746.

10 Decision 2013-072: 2012 Performance-Based Regulation Compliance Filings, AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Application No. 1608826, Proceeding ID No. 2130, March 4, 2013.

11 Decision 2013-072, paragraph 137.

12 Decision 2013-084: AltaGas Utilities Inc., Compliance Filing to AUC Decision 2012-189 and Application for a Further Exemption from the Requirements of AUC Rule 028 Pursuant to AUC Decision 2011-346, Application No. 1609176, Proceeding ID No. 2335, March 13, 2013.

13 Decision 2001-75: Methodology for Managing Gas Supply Portfolios and Determining Gas Cost Recovery Rates (Methodology) Proceeding and Gas Rate Unbundling (Unbundling) Proceeding Part A: GCRR Methodology and Gas Rate Unbundling, Application No. 2001040 & 2001093, File No. 5680-1 & 5680-2, October 30, 2001.

15. In the application, AUI requested a new load balancing deferral account for tracking revenues and expenses related to load balancing and an associated rate rider to refund or recover accumulated balances in the LBDA.

16. In reference to AG's LBDA, in Decision 2006-098 (Errata),[14] the board included in the load balancing definition consideration of the related administrative aspect of buying or selling gas by AG to bring its account into balance with the transmission pipeline system. Deferral account treatment was approved for each of AG's north and south service territories for accumulated costs related to purchases and sales and to ultimately provide for the collection or refund of the amounts accumulated, once a specified threshold was reached.

17. In Decision 2008-021,[15] the board approved the timing and the threshold amounts for the recovery or refund of AG's LBDA balances, the use of weighted average cost of capital (WACC) for calculating carrying costs, and the inclusion of other charges or credits from the transmission pipeline system in the LBDA.

18. In Order U2008-290,[16] the AUC approved the creation of a LBDA for each of AG's south and north service territories, as part of the implementation of AG's retailer service, effective October 1, 2008.

19. In Decision 2009-050,[17] the Commission approved AG's request to create a rate rider, Rate Rider L, for use in recovering the LBDA balance for AG South.

### 2.3 Performance-based regulation and Y factor criteria

20. AUI, as a regulated gas distribution company, is currently subject to performance-based regulation (PBR). Decision 2012-237[18] approved PBR plans for five distribution companies, including AltaGas, for a five-year term commencing January 1, 2013. PBR replaces cost of service regulation as the annual rate-setting mechanism for these utilities' rates. The PBR framework provides a formula mechanism for the annual adjustment of rates independent of the underlying costs incurred by the companies. In general, the companies' rates are adjusted annually by means of an indexing mechanism that tracks the rate of inflation relevant to the prices of inputs the companies use, less an offset to reflect the productivity improvements that the companies can be expected to achieve during the PBR plan period. There are also certain adjustments that distribution companies can apply for, outside the indexing mechanism.

[14] Decision 2006-098 (Errata): ATCO Gas Retailer Service and Gas Utilities Act Compliance Phase 2 Part B Customer Account Balancing and Load Balancing, Application No. 1411635, November 7, 2006.

[15] Decision 2008-021: ATCO Gas, Retailer Service and Gas Utilities Act Compliance Module 3, Part 1, Application No. 1482246, March 17, 2008.

[16] Order U2008-290: ATCO Gas Retailer Service and Gas Utilities Act – Phase II, Part B Process, Modules 3 & 5, Application No. 1575607, Proceeding ID No. 68, September 12, 2008.

[17] Decision 2009-050: ATCO Gas South Retailer Service South Load Balancing Deferral Account South Load Balancing Rate Rider "L", Application No. 1604893 Proceeding ID No. 178, April 24, 2009.

[18] Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

21. The Commission established a Y factor adjustment as one avenue for recovery or refund of costs outside the indexing mechanism. In the PBR decision, the Commission set out the criteria for when a cost may be treated as a Y factor:

> 1) The costs must be attributable to events outside management's control.
> 2) The costs must be material. They must have a significant influence on the operation of the company otherwise the costs should be expensed or recognized as income, in the normal course of business.
> 3) The costs should not have a significant influence on the inflation factor in the PBR formulas.
> 4) The costs must be prudently incurred.
> 5) All costs must be of a recurring nature, and there must be the potential for a high level of variability in the annual financial impacts.[19]

22. If all of the Y factor criteria are met, a company may be permitted to recover the costs associated with these items outside of the indexing mechanism on a flow-through basis.

## 3 Issues

23. The following issues were raised in this proceeding, and are addressed in the sections below:

- establishment of a LBDA and associated Rider L
- items to be included in the LBDA
- carrying charges
- deferral of income tax effect
- recovery or refund of LBDA balances

### 3.1 Request to establish a load balancing deferral account and Rider L

24. AUI indicated that it used industry practices and procedures approved by the Commission for AG in Decision 2006-098 (Errata) and Decision 2008-021 as general guidance in preparing its application. In response to an information request from the CCA, AUI provided a list of additional AG decisions that it reviewed.[20] AUI submitted that modelling its proposed LBDA and Rider L after AG's is a sensible approach because AG's are based on several years of experience, and existing industry practices and procedures approved by the Commission.[21]

25. AUI referred to the definition of the load balancing function from EUB Decision 2001-75 and noted the board's distinction between load balancing and customer account balancing from Decision 2005-081:[22]

> Account balancing is the process associated with administering account tolerances and reconciliation by individual customer accounts whereas load balancing is the process of acquisition or disposition of gas supplies by the utility to maintain the pipeline system

19 Ibid., paragraph 631.
20 Exhibit 14.01, response to CCA-AUI-4(d).
21 Exhibit 16.01, AUI argument, paragraph 6.
22 Decision 2005-081: ATCO Gas Retailer Service and Gas Utilities Act Compliance Phase 2 Part A, Application No. 1380942, July 26, 2005.

pressures in balance. The two processes are linked to the extent that larger tolerances for customer account balancing would directionally result in larger daily amounts of gas being purchased/sold by the utility.[23]

26. For the purposes of the application, AUI defined load balancing as:

> …the process of managing gas receipts to meet the consumption requirements of its customers and includes the daily balancing of the transmission capacity AUI contracts for and holds on the TransCanada Pipeline (TCPL) system on behalf of all of AUI's gas distribution service customers. The transmission capacity AUI contracts for on the TCPL allows both retailers and the default supply provider (DSP) to transfer gas from the TCPL transmission system to AUI's gas distribution system by way of trading on a gas exchange. AUI's account on the TCPL system is used for these transfers…[24]

27. AUI submitted that the proposed LBDA will primarily be used for two purposes: to capture the financial impact of the effects of retailers' account imbalances for deliveries and receipts on AUI's distribution system and to account for system balancing of transmission capacity on the TCPL system. The lack of real time measurement data and adjustments for prior periods, and the absence of line pack for balancing differences between actual UFG and approved UFG rates contribute to the need for AUI's LBDA.[25] AUI submitted:

> The fact LBDA balances are very difficult to forecast, are expected to fluctuate between positive and negative amounts and could persist at material levels for extended periods of time without necessarily reaching a level where recovery or refund is implemented, emphasizes the need for Commission approval of a deferral account.[26]

28. In response to a Commission information request, AUI outlined its reasons in support of load balancing deferral account treatment and stated that its request for a LBDA satisfies each of the Y factor criteria in Decision 2012-237, and therefore its LBDA should be treated as a Y factor.[27] AUI submitted that the LBDA should be approved for Y factor treatment since the deferral account is necessary for the ongoing operation of its distribution system and is consistent with the Y factor treatment for AG's LBDA, approved in Decision 2012-237.[28]

29. The CCA agreed in its argument that AUI's proposed LBDA meets the five Y factor criteria.[29]

## Commission findings

30. The Commission finds that AUI's load imbalances satisfy all of the Y factor criteria. The need for a LBDA is driven by the development of AUI's natural gas settlement system which is required to comply with AUC Rule 028. The proposed LBDA relates to retailers and system balancing requirements associated with third party transactions. The LBDA, therefore, is attributable to events outside management's control and satisfies the first of the five Y factor criteria.

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23 Decision 2005-081, footnote 4, page 2.
24 Exhibit 3, application, paragraphs 9 and 10.
25 Exhibit 3, application, paragraph 16.
26 Exhibit 3, application, paragraph 25.
27 Exhibit 13.01, response to AUC-AUI-2.
28 Exhibit 16.01, AUI argument, paragraph 11.
29 Exhibit 17.01, CCA argument, paragraph 4.

31. In addition, the materiality threshold of some $316,000 proposed by AUI[30] is in excess of the materiality threshold for Y factor costs set out in Decision 2013-270[31] and the LBDA is not expected to have a significant influence on the inflation factor. The second and third Y factor criteria are accordingly satisfied.

32. The Commission considers that the fourth criteria, that the costs must be prudently incurred, is met because the application sets out a sufficient mechanism for AUI to balance its transmission account and establishes threshold amounts for recovery or refund of revenue and expenses through the LBDA, in compliance with AUC Rule 028.

33. Finally, the costs are of a recurring nature and may have variability due to the number of different factors involved in physical and financial settlement of the natural gas system. The amounts included in the LBDA for retailer and system settlement may vary throughout the year and are not easily forecasted. The fifth criterion for Y factor treatment has therefore been satisfied and no party disagreed with AUI's submission that its load balances meets the five Y factor criteria.

34. In light of the implementation of a LBDA by AUI to comply with AUC Rule 028 and the resulting financial impacts resulting from retailer account imbalances, as well as the requirement to balance AUI's account on the TCPL system, the Commission finds that a LBDA and associated Rider L are required. AUI's request to establish a LBDA and Rider L, to be included as a Y factor in AUI's PBR plan, are approved.

## 3.2 Components of the load balancing deferral account

### 3.2.1 General

35. AUI identified the various cost components associated with load balancing and categorized the components into three groups. As stated above, the need for the LBDA is driven by the imbalances in retailers' accounts on the gas distribution system, as well as the imbalances in AUI's account on the TCPL system. The three categories of cost components are:

- Costs attributable to specific customers (retailer-related) – Retailer-related costs are derived from the imbalances in retailer's accounts on AUI's distribution system. The financial implications of load balancing will be subject to retailers' management of their account balances.

- Costs attributable to the system and, therefore, not specific to any customer (system-related) – System-related costs are mainly derived from AUI's account imbalances on the TCPL transmission system. The financial implications of load balancing will also be subject to AUI's management of its TCPL account.

- Other costs – Carrying charges associated with LBDA balances, and the deferred income tax effect.

[30] Exhibit 14.01, Schedule 7.1 of AltaGas Utilities Inc.'s application.
[31] Decision 2013-270: 2012 Performance-Based Regulation Second Compliance Filings AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Application No. 1609367, Proceeding ID No. 2477, July 19, 2013.

36. AUI's proposed LBDA has nine components which are also included in AG's LBDA. AUI excluded components that were specific to AG and do not apply to AUI.[32] The nine components included in AUI's LBDA are:

**Retailer-related:**

- imbalance purchases/sales
- settlement gas recoveries
- unrecovered account balancing amounts related to retailers

**System-related**:

- daily balancing on the TCPL system
- monthly balancing on the TCPL system
- hit line revenue recovered from third parties
- third-party fees (Intercontinental Exchange Fees for trading related to natural gas energy purchase or sale)

**Other components:**

- carrying charges
- deferral of income tax effect[33]

37. No intervener objected to the components proposed by AUI to be included in the LBDA.

38. AUI submitted that the retailer-related and system-related components are standard within the framework of daily in-kind settlement and the last two components, carrying charges and deferral of income tax effects, are more complex in nature than the standard components.[34]

39. Carrying charges and the deferral of income taxes are examined in further detail below.

### 3.2.2 Carrying charges

40. AUI submitted that it expects the LBDA will fluctuate between significant positive and negative balances over extended time periods before reaching the threshold level necessary to trigger the implementation of a rate rider. In order to compensate both customers and AUI for the time value of money associated with the funds in the LBDA, AUI proposed to apply a carrying charge on the monthly balances at AUI's most recently approved WACC. AUI stated that this approach is consistent with the Commission's approval for AG, pursuant to Decision 2008-021.[35]

41. AUI submitted in an information response:

> AUI supports using WACC on the basis that AUI anticipates the balance in the LBDA to be outstanding for more than one year. Combined with the associated regulatory lag to get a decision on a rate rider application, the use of a long-term interest rate is appropriate. In addition, the use of WACC is consistent with Commission decisions regarding the LBDA.[36]

[32] Exhibit 16.01, AUI argument, paragraph 7.
[33] Exhibit 3, application, paragraphs 27 to 42.
[34] Exhibit 16.01, paragraphs 13 to 15.
[35] Exhibit 3, application, paragraph 37.
[36] Exhibit 14.01, response to CCA-AUI-6.

42. AUI stated that it is aware of a recent Commission directive in Decision 2013-106[37] for AG to prepare and file a report, by December 31, 2013, on the merits of using WACC as compared to AUC Rule 023: *Rules Respecting Payment of Interest* (AUC Rule 023) interest rates for its north deferral account pre and post Rate Rider L. To comply with Commission directions following the filing of the AG report on carrying charges, AUI said it would be prepared to amend its basis for calculating carrying charges on its LBDA.[38]

43. The CCA supported the use of the same interest rate treatment for AUI's LBDA balances as for AG's LBDA balances, should the AUC rule, as a result of the AG report, that carrying costs should be applied in accordance with AUC Rule 023 rather than WACC.[39]

### 3.2.3 Deferral of income tax effects

44. AUI identified that there may be a timing difference between when amounts charged to the LBDA will be recognized for income tax purposes and when AUI will implement a rider related to the LBDA, which will result in an income tax expense timing difference. To ensure this income tax expense timing difference does not impact the earnings of AUI from year to year, AUI proposed to defer these income tax expense timing differences by including the deferred income tax effect in the LBDA. AUI proposes to apply an approach similar to that used by AG and approved by the Commission in Decision 2013-106.

45. AUI noted that the same deferred income tax treatment is accorded to Y factor amounts associated with AUC and UCA assessment fees and intervener hearing costs.[40]

46. No intervener objected to the inclusion of the deferral of income tax effect in the LBDA.

**Commission findings**

47. The Commission concurs with AUI that the first seven of the nine components in AUI's LBDA are generally standard for a LBDA. The Commission finds that the retailer-related components and the system-related components, as proposed, are required for load balancing and settlement purposes. The Commission will review the reasonableness of the effective balancing and settlements related to each of these nine components when AUI files a Rider L application.

48. With respect to carrying costs, the Commission accepts AUI's arguments for the use of WACC to account for the fluctuations in monthly balances, and is mindful of the consistent application of carrying charges to both the utility and customers. The Commission notes that no intervener objected to the inclusion of interest costs in the LBDA. The Commission approves the use of AUI's most recently approved WACC for the monthly balances in its LBDA.

49. As discussed above, the Commission recently directed AG to prepare and file a report on the merits of using WACC rather than AUC Rule 023 interest rates. If any adjustments need to be considered with respect to AUI's use of WACC in its LBDA balances, following any

37 Decision 2013-106: ATCO Gas North Load Balancing Rate Rider, Application No. 1609109, Proceeding ID No. 2290, March 20, 2013.
38 Exhibit 3, application, paragraph 40.
39 Exhibit 17.01, CCA argument, paragraphs 6.
40 Exhibit 14.01, response to CCA-AUI-7(b).

Commission directions with respect to AUI use of WACC, AUI is directed to include a proposal in its first Rider L application.

50. With respect to the deferral of income tax effects, the Commission finds that this treatment has been previously approved for load balancing deferral accounts, and for other deferral accounts such as the AUC and UCA assessment fees and intervener hearing costs. The Commission finds that deferral of income tax amounts properly qualify for inclusion in the LBDA.

51. The nine LBDA components are accordingly approved for inclusion in AUI's LBDA and for recovery or refund through Rider L.

### 3.3 Recovery or refund of load balancing deferral account balances

52. AUI proposed that LBDA balances be allocated to all distribution service customers by way of a rate rider triggered by a pre-defined LBDA balance threshold. Based on its review of current balancing with retailers through monthly financial settlements and with TCPL through monthly in-kind settlements, AUI recommended thresholds of ±$1 million in the same direction for six consecutive months or ±$1.5 million in any single month. AUI submitted that these thresholds would help mitigate large balances while limiting the frequency of rider applications, thereby improving regulatory efficiency and reducing costs for customers. AUI's six-month trigger is based on a similar approach to that used by AG, but AUI's one-month trigger is based on a 50 per cent premium to the six-month trigger, while AG uses a 100 per cent premium.

53. AUI stated that the basis for AUI's approach is consistent with the approach, approved by the Commission for AG, to apply a specific threshold to trigger an application to clear the LBDA balance through a rate rider.

54. AUI stated that it recognizes that implementation of its settlement system during the gas season's shoulder months could result in above-average sized transactions in the LBDA during the first few months of the settlement system's operation, but that AUI had accounted for this in determining its proposed threshold limits.[41] AUI recognized that it has no prior experience with administering a LBDA and submitted that, in the event rate riders are triggered too frequently, it would consider amending the thresholds.

55. AUI proposed that the balance in the LBDA be allocated by rate class based on forecast throughput, and then converted into a per gigajoule rate for Rider L. AUI submitted that it is appropriate to apply the rate rider to all gas distribution service customers since the impacts of load balancing on the distribution system are applicable to all customers.[42]

56. AUI expanded on its proposed methodology in response to a CCA information request:

> Imbalances occur when actual throughputs differ from nominations. Retailer nominations are made based on guidelines in Rule 028 Natural Gas Settlement System Code (NGSSC). Thus, the primary factor driving the imbalance is the customer usage throughput. Given the LBDA balance is to be recovered from distribution customers over a set period of time, using forecast throughput to determine the recovery rate is an

[41] Exhibit 13.01, response to AUC-AUI-3(e).
[42] Exhibit 3, application, paragraphs 43 to 46.

appropriate method to ensure collections or distributions to customers are made in an orderly and logical fashion.[43]

57. AUI also confirmed that its proposed methodology for recovering or refunding LBDA balances is similar to the one approved by the Commission for AG's LBDA, that has been in use for several years.[44]

58. No intervener commented on the suitability of AUI's proposed thresholds or the methodology for recovering or refunding the LBDA balances. The CCA, however, recommended avoiding frequent rate changes from the build-up of initial large balances in the gas season's shoulder months, by amortizing the initial large balances over a 12-month period.[45]

59. AUI responded that the amortization period for recovery or refund of LBDA balances is best addressed at the time of an actual Rider L application, based on the amount to be recovered or refunded, the time of year the rider is triggered, impacts on customer rates, and forecast billing determinants. AUI submitted that this approach is consistent with its current practice for rate rider applications, considers potential rate shock to customers and takes into account the frequency of rate changes.[46]

**Commission findings**

60. The Commission has reviewed the data provided by AUI in response to an information request and considers the method used by AUI to arrive at the proposed six-month threshold to be reasonable. The choice of the six-month threshold, using the upper end of AUI's recent balancing experience and a gas price that is based on recent historical and current prices that also reflect the forward gas curve, should achieve a reasonable balance between the mitigation of large financial balances and regulatory efficiency by limiting the frequency of the threshold trigger.[47]

61. As noted above, AUI's six-month trigger is based on an approach similar to that used by AG, but AUI's one-month trigger is based on a 50 per cent premium to the six-month trigger while AG uses a 100 per cent premium. There was no evidence presented in this proceeding to explain the rationale for the difference in premiums, nor were there any concerns expressed by interveners. The one-month threshold is approved and the Commission directs AUI to monitor the threshold going forward for relevance to ensure a reasonable balance continues to be achieved and to consider a higher premium for the one-month trigger if it is found to be too low. The Commission will also continue to monitor the LBDA balances in future Rider L applications. AUI is directed to file the results of its monitoring of the one-month threshold at the time of its first Rider L application.

62. With respect to the recovery or refund of LBDA balances, the Commission finds AUI's proposed method to be reasonable, since it is consistent with the main driver of the imbalances and is similar to the currently approved method for AG. The Commission rejects the CCA's proposal that large balances be amortized over 12 months. Although a 12-month recovery or

[43] Exhibit 14.01, response to CCA-AUI-9(a).
[44] Exhibit 14.01, response to CCA-AUI-9(b).
[45] Exhibit 17.01, CCA argument, paragraph 7.
[46] Exhibit 19.01, AUI reply argument, paragraphs 5 and 6.
[47] Exhibit 13.01, response to AUC-AUI-3(a) and (b).

refund period may result from AUI's Rider L applications, the Commission finds that the issue of large balances is best addressed through the setting of threshold amounts and basing the recoveries or refunds on the specifics and timing of individual Rider L applications. The Commission considers that this method is more consistent with current regulatory practice for recoveries or refunds using rate riders. The Commission approves AUI's methodology for recovering LBDA balances from customers or refunding balances to customers.

## 4 Order

63. It is hereby ordered that:

(1) AltaGas Utilities Inc.'s application is approved, as filed. AltaGas Utilities Inc. shall implement its proposed load balancing deferral account and associated Rate Rider L, effective the date of this decision.

(2) AltaGas Utilities Inc. shall file the results of its one-month threshold monitoring at the time of its next Rider L application.

Dated on October 31, 2013.

The Alberta Utilities Commission

*(original signed by)*

Mark Kolesar
Vice-Chair

# Appendix 1 – Proceeding participants

| Name of organization (abbreviation)<br>counsel or representative |
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| AltaGas Utilities Inc. (AUI)<br>R. Koizumi<br>C. Martin<br>J. Coleman<br>L. Chan<br>H. Stribrny |
| ATCO Gas (AG)<br>N. McKay<br>A. Green |
| Consumers' Coalition of Alberta (CCA)<br>J. A. Wachowich<br>A. P. Merani |
| Direct Energy Regulated Services (DERS)<br>K. Hillas<br>N. Black |

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| The Alberta Utilities Commission (AUC)<br><br>Commission Panel<br>M. Kolesar, Vice-Chair<br><br>Commission Staff<br>A. Sabo (Commission counsel)<br>P. Howard<br>B. Whyte |

## Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. As discussed above, the Commission recently directed AG to prepare and file a report on the merits of using WACC rather than AUC Rule 023 interest rates. If any adjustments need to be considered with respect to AUI's use of WACC in its LBDA balances, following any Commission directions with respect to AUI use of WACC, AUI is directed to include a proposal in its first Rider L application. ..................................... Paragraph 49

2. As noted above, AUI's six-month trigger is based on an approach similar to that used by AG, but AUI's one-month trigger is based on a 50 per cent premium to the six-month trigger while AG uses a 100 per cent premium. There was no evidence presented in this proceeding to explain the rationale for the difference in premiums, nor were there any concerns expressed by interveners. The one-month threshold is approved and the Commission directs AUI to monitor the threshold going forward for relevance to ensure a reasonable balance continues to be achieved and to consider a higher premium for the one-month trigger if it is found to be too low. The Commission will also continue to monitor the LBDA balances in future Rider L applications. AUI is directed to file the results of its monitoring of the one-month threshold at the time of its first Rider L application. ......................................................................................... Paragraph 61