



AltaGas Utilities Inc.

2013-2014 Rider E and Rider H (Unaccounted-for Gas)

October 31, 2013

The Alberta Utilities Commission

Decision 2013-396: AltaGas Utilities Inc.

2013-2014 Rider E and Rider H (Unaccounted-for Gas)

Application No. 1609896

Proceeding ID No. 2815

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1 Introduction

1. On September 4, 2013, AltaGas Utilities Inc. (AUI) filed an application with the Alberta Utilities Commission (the AUC or the Commission) for approval of the annual adjustment to Unaccounted-for Gas (UFG) Rate Rider E (Rider E) and UFG Rate Rider H (Rider H). AUI requested that the rate changes for Rider E and Rider H take effect on November 1, 2013.
2. On September 6, 2013, the Commission issued a notice of application for AUI's request to increase riders E and H. Any party who wished to intervene in this proceeding was required to submit a statement of intent to participate (SIP) to the Commission by September 13, 2013.
3. SIPs were received by the submission closing date from the Consumers' Coalition of Alberta (CCA), the Office of the Utilities Consumer Advocate (UCA) and ATCO Gas, a division of ATCO Gas and Pipelines (AG). In their SIPs, the CCA and the UCA both stated they did not object to the proposed Rider E and Rider H. AG stated its extent of participation was unknown at the time of filing its SIP.
4. The Commission issued a September 24, 2013 process letter advising that it had reviewed the application and the SIPs submitted by interveners, and determined that the application would be conducted as a *notice only* proceeding. As outlined in the Commission's Bulletin 2010-16,¹ the record development phase of a *notice only* proceeding is expected to take no more than 24 calendar days from the receipt of application, assuming a complete application is received and there are no procedural delays.
5. The Commission considers the close of record for this proceeding to be September 24, 2013.
6. 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.

¹ Bulletin 2010-16, Performance Standards for Processing Rate-Related Applications, April 26, 2010.

2 Background

7. In AUC Bulletin 2011-11,² issued on April 1, 2011, the Commission announced the approval of AUC Rule 028: *Natural Gas Settlement System Code Rules* (AUC Rule 028), effective April 4, 2011. All natural gas market participants operating in Alberta are required to comply with AUC Rule 028.
8. Consistent with the Commission's approval in Decision 2013-339,³ AUI is implementing the second and final phase of its natural gas settlement system by November 1, 2013.
9. Before the implementation of AUC Rule 028 and AUI's natural gas settlement system, Rider E was used to calculate all of AUI's UFG. As a consequence of the implementation of AUI's natural gas settlement system, AUI now requires two UFG rate riders: Rider H for natural gas settlement system processes and Rider E for producer transportation service.
10. The Natural Gas Settlement System Code requires that deliveries are used in the calculation of the retailers' and the default gas supply providers' shares of UFG. Rider H, approved in Decision 2013-367,⁴ enables AUI to calculate each of the retailers' and the default gas supply providers' share of UFG.
11. However, unlike other forms of distribution service on AUI's system, where customer-specific measurement is undertaken at the point of delivery, customer-specific measurement for producer transportation service is undertaken at the point of receipt. Due to this unique and necessary circumstance, UFG for producer transportation service must be calculated on measured receipt quantities and, therefore, requires a separate rider calculated as a percentage of receipts. Rider E is used to account for the UFG from producer transportation service. Rider E is also used in the determination of AUI's monthly gas cost recovery rate (Rider D) and third-party transportation rate (Rider G).
12. In Decision 2012-292,⁵ in respect of AUI's previous annual Rider E filing, the Commission approved an increase for Rider E from 1.21 per cent to 1.24 per cent, effective November 1, 2012. AUI is requesting an increase in Rider E to 1.28 per cent in the current application.
13. AUI previously requested that the new Rider H rate of 1.26 per cent, which was approved in Decision 2013-367, effective September 27, 2013, remain in place until it was updated as part of AUI's next annual UFG application. While the proceeding to address the implementation of a new Rider H was underway, AUI filed the current application for its annual UFG adjustment, and requested an increase to Rider E to 1.28 per cent and Rider H to 1.30 per cent, effective November 1, 2013.

² Bulletin 2011-11, Rule 028 (Version 1.0) *Natural Gas Settlement System Code Rules*, April 1, 2011.

³ 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.

⁴ 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.

⁵ Decision 2012-292: AltaGas Utilities Inc. 2012-2013 Rate Rider "E" – Unaccounted-For Gas, Application No. 1608828, Proceeding ID No. 2133, October 30, 2012.

3 Discussion of issues

14. AUI did not propose any change to its approved methodology for calculating riders E and H. Rider E is calculated using the most recent five-year arithmetic average of the annual UFG percentages, based on system receipts. Rider H is calculated using the most recent five-year arithmetic average of the annual UFG percentages based on system deliveries, as required by AUC Rule 028. The five-year historical average calculations were included in the application as Schedule B (for Rider E) and Schedule D (for Rider H). These five-year average calculations are reproduced in Tables 1 and 2 below:

Table 1. Determination of UFG Rate Rider E percentage for 2013-2014

Previous five years UFG percentages for the year ended May 31	Percentage loss
2009	0.93
2010	1.33
2011	1.61
2012	1.18
2013	1.36
Arithmetic average	1.28

Table 2. Determination of UFG Rate Rider H percentage for 2013-2014

Previous five years UFG percentages for the year ended May 31	Percentage loss
2009	0.94
2010	1.35
2011	1.64
2012	1.19
2013	1.38
Arithmetic average	1.30

15. The Commission compiled Table 3 below to show the last few years of approved amounts for UFG recovery through Rider E, based on the approved methodology using the most recent five-year arithmetic average of the annual UFG percentages:

Table 3. AUI Rider E – approved UFG amounts on an annual basis from 2006 to 2013

AUI historical approved UFG percentages to be recovered through Rider E	Per cent loss	Percentage change
2006-2007	0.73	n/a
2007-2008	0.74	1.4
2008-2009	0.82	10.8
2009-2010	0.86	4.9
2010-2011	0.97	15.1
2011-2012	1.21	24.7
2012-2013	1.24	2.5
2013-2014 (proposed)	1.28	3.2

16. In paragraph 32 of Decision 2012-292, the Commission directed AUI to provide the following information in its next UFG application to assist the Commission in better understanding the source(s) of AUI's UFG:

- (a) monthly receipt and delivery volumes and UFG percentage loss or gain from the most current month available back to June 2002
- (b) a clear and detailed explanation of the seasonal difference in UFG rates, and the specific reasons for negative UFG amounts in any month
- (c) the reasons for any increases/decreases in AUI's UFG and details of the additional steps AltaGas is taking to reduce UFG

17. AUI responded to this Commission directive in Schedule E attached to the application. AUI provided the requested monthly data for the period from June 2002 to May 2013. With respect to the seasonal differences in UFG rates and negative UFG in some months, AUI explained that the two main factors driving these seasonal differences are: timing differences in natural gas deliveries and receipts, and low natural gas flow metering in the summer.

Timing differences

18. Timing differences are mainly caused by monthly customer billings that occur on a staggered basis throughout the month, resulting in the need to prorate customer billing information to determine deliveries for a calendar month. Proration can create significant inaccuracies in a given month, especially in the shoulder months of spring and fall when consumption can change significantly from the beginning to the end of a customer's monthly billing period. AUI stated that:

sales estimation variances can be large enough to actually create an apparent negative UFG volume in a given month or, more rarely, even two or three consecutive months. However, negative UFG volumes on a monthly basis occur almost exclusively in the shoulder and summer months, are low in relation to total UFG volumes, and essentially reverse or correct themselves over a one-year period or less.⁶

19. AUI anticipates that the change from bi-monthly to monthly meter reads, which occurred in July of 2012, will, over time, reduce the inaccuracies caused by proration. However, AUI stated that it is unknown at this time if more accurate information will lead to an increase or decrease in UFG.

20. Receipt metering involves less estimation than delivery meters, but in some cases, estimates are required for stopped meters and sites without automatic meter reading (AMR). Also, meters may not be read on the same day each month resulting in volumes that can be over or understated from month to month due to these timing differences. For example, a receipt meter may be read on the 25th for one month, but not until the 30th of the following month due to weather conditions or staff availability in outlying rural areas. The differences in UFG from monthly receipt estimates are eliminated over the course of a year.

Low natural gas flow metering in summer

21. AUI's meters are designed for peak gas flow and measurement accuracy is affected by low natural gas flows in summer months that can cause meter slippage. Meter slippage overstates

⁶ Exhibit 1, AUI application, paragraph 5 of Schedule E, page 9.

calculated UFG, since gas is flowing to the customer but the meter misreports sales because volume is too low. In AUI's submission, addressing meter slippage by installation of additional meters specifically designed to measure low flow does not warrant the additional metering cost.

22. In response to part (c) of the Commission's directive, AUI summarized the three additional areas that can have either a positive or negative impact on UFG, and cannot be accurately quantified or forecast:

- operations – pipeline leaks
- measurement – incorrect instrument configuration, documentation, installation replacement or maintenance activity
- other factors – accounting/billing, theft, facility damages

23. AUI discussed these impacts and provided the steps it is following to reduce UFG. The information provided by AUI is summarized below.

Operations

24. AUI's system betterment program, approved as part of its 2010-2012 Phase I general rate application⁷ and incorporated into its proposed 2013-2017 performance-based regulation capital tracker plan,⁸ includes systematic replacement of bare steel, polyvinyl chloride, non-certified polyethylene pipe and couplings, and pre-1957 steel pipe and couplings, throughout its system. A significant portion of the leaks occur in these pipelines and fittings and AUI anticipates that their replacement should help reduce UFG volumes over the long term. In conjunction with pipeline replacement, AUI's cathodic protection program, leak surveys, and pressure testing will continue and may result in reductions of UFG.

Measurement

25. To address issues with UFG reporting and measurement inaccuracy, AUI discussed certain ongoing operations, including maintenance and replacement of its stations and meters. AUI noted that many of its stations and meters were installed in the 1950s, 1960s and 1970s and are now either undersized for current requirements, equipped with obsolete parts or do not conform to the new pipe configurations developed by AUI for operational efficiency and safety. As part of AUI's system betterment program, which commenced in 2010 and will continue over the next several years, specified stations will be replaced or upgraded.

26. In addition, AUI's receipt points are generally equipped with automated meter reading (AMR). However, some AMR-equipped receipt points within the AUI system do not have communication-capable equipment and require manual processing to capture receipt point data. With only a small window at month-end for all this data to be analyzed, verified and processed, delays in correcting meter inaccuracies can result in UFG variances from month to month. AUI stated that it continues to examine the viability of AMR at delivery points which might further improve the accuracy of data used in the calculation of UFG.

⁷ Decision 2012-311 (Errata): AltaGas Utilities Inc. 2010-2012 General Rate Application – Phase I Compliance Filing Pursuant to Decision 2012-091, Application No. 1608512, Proceeding ID No. 1921December 5, 2012.

⁸ Performance-based regulation capital tracker K factor application pursuant to Decision 2012-237, Application No. 1608827; Proceeding ID No. 2131, December 14, 2013.

Other factors

27. AUI indicated that it is continuing to improve its processes to identify and correct unbilled customer accounts that result from system coding errors, stopped meters and human error. AUI is improving its monitoring of accounts to correct unbilled customer accounts by regularly monitoring monthly meter reading data to identify anomalies. It is also examining the tariff billing code and the natural gas settlement system code systems and processes in order to identify billing issues.

28. AUI expects to implement a new gas measurement and accounting system in 2014 or 2015. This new system is expected to reduce manual data entry, speed up data and information collection and review, include built in analysis capabilities, provide timely information with respect to measurement, and assist in the identification of issues and the facilitation of timely corrections or remedial action (e.g., stopped meters).

29. In the application, AUI also described efforts to reduce UFG in the areas of theft, facility damages, and purging of pipe.

4 Commission findings

30. The Commission recognizes that all gas distribution pipeline systems have UFG as an element of operating a natural gas distribution system. The Commission also recognizes that, due to the many factors that impact UFG, the UFG percentage will fluctuate over time. The Commission has reviewed the calculations for Rider E and Rider H and is satisfied that AUI's proposed UFG rate calculation is accurate and is consistent with the method approved in previous decisions; most recently in Decision 2012-292.

31. AUI's annual UFG percentages for the past five years have ranged from a low of 0.93 per cent to a high of 1.61 per cent for Rider E; and a low of 0.94 per cent to a high of 1.64 per cent based on the calculations that would have applied for Rider H. The Commission finds that AUI has demonstrated that the proposed amounts to be recovered through the rate riders fall approximately in the middle range of the range of historical percentages for each of the rate riders, and AUI's proposals for the amounts to be recovered through the riders are further supported by the historical data for Rider E and the additional calculations provided for Rider H.

32. The Commission has reviewed the historical UFG data, AUI's explanation of the seasonal differences in UFG amounts, the reasons for negative UFG in certain months and the reasons for annual changes in UFG, and the additional steps AUI is taking to reduce UFG in response to previous Commission directions in Decision 2012-292.

33. The Commission notes that AUI has recently undertaken initiatives; in particular, the initiatives and capital programs that were approved in response to AUI's 2010-2012 Phase I general rate application, especially to address aging pipelines and leaks and to improve stations and meters. AUI is also endeavoring to improve sales estimation accuracy, and accounting and billing processes. The Commission accepts that these initiatives may not immediately result in net reductions in UFG rates and observes that both riders E and H increased from 2012 to 2013 (as shown in tables 1 and 2 and in the increase in the annual five-year averages in Table 3). For Rider E, the UFG amounts to be recovered for 2012-2013 demonstrate a slowing in the

percentage increase in UFG from previous years. However, the per cent of UFG to be recovered through Rider E is continuing on an upward trend.

34. The Commission understands that not all of the causes of UFG can be eliminated but would expect that these percentages will be reduced over time due to AUI's initiatives to reduce UFG. AUI is directed to continue with its commitment "to quantify the causes of UFG and take action going forward to reduce UFG fluctuations and UFG overall."⁹

35. The Commission is satisfied, for the purposes of the 2013-2014 UFG application, that AUI's proposed increases to Riders E and H are reasonable, given that the incremental amount of the increases is within the historical ranges for AUI's UFG, and in light of the evidence provided by AUI on its initiatives to reduce UFG. The Commission approves Rider E at 1.28 per cent and Rider H at 1.30 per cent, effective November 1, 2013. The Rider E and Rider H rate schedules, as approved, are attached to this decision as [Appendix 3](#) and [Appendix 4](#), respectively.

5 Order

36. It is hereby ordered that:

- (1) Rider E, at 1.28 per cent, is approved, effective November 1, 2013.
- (2) Rider H, at 1.30 per cent, is approved, effective November 1, 2013.

Dated on October 31, 2013.

The Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

⁹ Decision 2012-292, paragraphs 31.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
AltaGas Utilities Inc. (AUI) N. McKenzie J. Coleman C. Martin L. Chan B. Ayo D. McKenzie H. Stribny C. Maskoske
ATCO Gas A. Green
Consumers' Coalition of Alberta (CCA) J. A. Wachowich A. P. Merani
Office of the Utilities Consumer Advocate (UCA) T. D. Marriott R. Daw H. Gnez M. Stauff
The Alberta Utilities Commission (AUC) Commission Panel M. Kolesar, Vice-Chair Commission Staff A. Sabo (Commission counsel) P. Howard

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. The Commission understands that not all of the causes of UFG can be eliminated but would expect that these percentages will be reduced over time due to AUI’s initiatives to reduce UFG. AUI is directed to continue with its commitment “to quantify the causes of UFG and take action going forward to reduce UFG fluctuations and UFG overall.”
..... Paragraph 34

Appendix 3 – Rate Rider E rate schedule

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Appendix 3 - Rate
Rider E

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Appendix 4 – Rate Rider H rate schedule

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Appendix 4 - Rate
Rider H

(consists of 1 page)

RATE RIDER 'E'	UNACCOUNTED-FOR GAS
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FOR THE DETERMINATION OF UNACCOUNTED-FOR GAS (UFG)

The Unaccounted-For Gas Rate Rider will be used in the calculation of the Gas Cost Recovery Rate Rider 'D', the Third Party Transportation Rate Rider 'G' and to determine the amount of Unaccounted-For Gas, as defined in AltaGas Utilities Inc.'s Terms and Conditions of Service.

Unaccounted-For Gas Rider: 1.28%

EFFECTIVE DATE: November 1, 2013	REPLACING RATE EFFECTIVE: November 1, 2012	Page 1 of 1 RIDER 'E'
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AltaGas Utilities Inc.

RATE RIDER 'H'	UNACCOUNTED-FOR GAS GAS SETTLEMENT
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FOR THE DETERMINATION OF UNACCOUNTED-FOR GAS (UFG)

The Unaccounted-For Gas Rate Rider 'H' will be applied to all Retailers in the determination of Gas Settlement amounts. Retailers will be assessed a distribution UFG charge at the Point of Delivery. The UFG assessment will be made up 'in-kind' from each Retailer account.

Unaccounted-For Gas Rider: 1.30%

EFFECTIVE DATE: November 1, 2013	REPLACING RATE EFFECTIVE:	Page 1 of 1 RIDER 'H'
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