



**AltaGas Utilities Inc.**

**2014 Annual PBR Rate Adjustment Filing**

**December 23, 2013**



**The Alberta Utilities Commission**

Decision 2013-465: AltaGas Utilities Inc.  
2014 Annual PBR Rate Adjustment Filing  
Application No. 1609923  
Proceeding ID No. 2831

December 23, 2013

Published by

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## **1 Introduction and background**

1. On September 12, 2012, the Alberta Utilities Commission (AUC or Commission) issued Decision [2012-237](#),<sup>1</sup> approving performance-based regulation (PBR) plans for the distribution utility services of each of AltaGas Utilities Inc. (AUI), ATCO Electric Ltd. (ATCO Electric), ATCO Gas and Pipelines Ltd. (ATCO Gas or AG), EPCOR Distribution & Transmission Inc. (EDTI) and FortisAlberta Inc. (Fortis), jointly referred to as the companies. The PBR plans were approved for a five-year term commencing January 1, 2013. PBR replaces traditional cost-of-service regulation as the annual rate-setting mechanism for distribution utility rates.

2. As set out in Decision 2012-237, the PBR framework provides a formula mechanism for the annual adjustment of rates. In general, the companies' rates are adjusted annually by means of an indexing mechanism that tracks the rate of inflation (I) relevant to the prices of inputs the companies use less an offset (X) to reflect the productivity improvements the companies can be expected to achieve during the PBR plan period. As a result, a utility's revenues are no longer linked to its costs. Companies subject to a PBR regime must manage their businesses and service obligations with the revenues derived under the PBR indexing mechanism and other adjustments provided by the formula. The PBR framework is intended to create efficiency incentives similar to those in competitive markets.

3. Decision 2012-237 directed each of the companies to make a 2012 PBR compliance filing.

4. On March 4, 2013, the Commission issued Decision [2013-072](#),<sup>2</sup> dealing with the initial 2012 PBR compliance filings of each of the companies. The decision directed the companies to make a second compliance filing by March 18, 2013. The second compliance filings were to include proposed distribution rates to be effective April 1, 2013.

5. In accordance with the directions in Decision 2013-072, on March 18, 2013, the companies submitted their respective 2012 PBR second compliance filing applications, which included proposed distribution rates to be effective April 1, 2013. On March 22, 2013, the Commission issued Decision [2013-112](#),<sup>3</sup> approving the proposed April 1, 2013 rates on an interim basis, subject to a subsequent process.

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<sup>1</sup> Decision 2012-237: Rate Regulation initiative Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

<sup>2</sup> 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.

<sup>3</sup> Decision 2013-112: 2012 Performance-Based Regulation Second Compliance Filings April 1, 2013 Interim Distribution Rates for each of AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd.,

6. On July 19, 2013, the Commission issued Decision 2013-270,<sup>4</sup> reviewing the 2012 PBR second compliance filing applications. The Commission directed the companies to continue to use the April 1, 2013, interim rates for the remainder of the year, or until otherwise directed by the Commission.
7. Decision 2012-237 required the companies to submit their respective PBR annual rate adjustment applications on or before September 10th annually for implementation January 1st in the following year.<sup>5</sup> By letter dated September 9, 2013, AUI requested an extension to September 13, 2013 to file its application. By letter dated September 10, 2013, the Commission granted AUI's requested extension.
8. On September 13, 2013, AUI filed with the Commission its 2014 annual PBR rate adjustment application. As part of the application, AUI included a copy of the 2013 AUC Rule 005<sup>6</sup> filings and an attestation signed by a senior officer of the company, in accordance with the Commission directions in Section 13.1 of Decision 2012-237.
9. On September 18, 2013, the Commission issued a notice of application with statements of intent to participate (SIPs) due September 25, 2013. In their SIPs, parties were to indicate whether they supported or objected to the application and the reasons for their position, as well as the need for further process and the supporting rationale.
10. Also on September 18, 2013, AUI filed an updated application and requested parties to disregard the original filing. The updated filing incorporates information on AUI's load balancing deferral account rider, which AUI stated had been inadvertently omitted from its original filing.
11. The Commission received SIPs by the specified deadline date from the following parties:
- ATCO Gas and Pipelines Ltd. (AG)
  - The Consumers' Coalition of Alberta (CCA)
  - FortisAlberta Inc. (Fortis)
  - The Office of the Utilities Consumer Advocate (UCA)
12. In its SIP, the CCA requested the opportunity to test the application with a process of written information requests (IRs), argument and reply argument. The UCA indicated an intention to file IRs, after which it would assess the need to file intervenor evidence. Fortis submitted that it did not object to the application but is interested in monitoring the proceeding. AG indicated that the extent of its participation in the proceeding is unknown at the current time.

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EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Application No. 1609367, Proceeding ID No. 2477, March 22, 2013.

<sup>4</sup> 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.

<sup>5</sup> Decision 2012-237, paragraph 962.

<sup>6</sup> AUC Rule 005: *Annual Reporting Requirements of Financial and Operational Results*.

13. By letter dated September 27, 2013, the Commission determined that the application would be conducted by way of a minimal written process proceeding, as outlined in Commission Bulletin 2010-16.<sup>7</sup> and set out the following process and schedule:<sup>8</sup>

<b>Process step</b>	<b>Deadline dates</b>
Information requests to AUI	October 9, 2013, 4 p.m.
Responses to information requests from AUI	October 22, 2013, 4 p.m.
Argument	November 4, 2013, 4 p.m.
Reply argument	November 15, 2013, 4 p.m.

14. IRs were filed by the Commission, the UCA and the CCA on October 9, 2013. AUI filed some of its IR responses on October 22, 2013, and the remaining responses on October 24, 2013.

15. On October 25, 2013, the Commission received a letter from the UCA indicating its intention to submit evidence on each of the 2014 annual PBR rate adjustment filing applications. In a subsequent letter, submitted October 28, 2013, the UCA clarified that it intended to utilize the evidence of Mr. Russ Bell which was previously filed on the record in Proceeding ID No. 2131, and proposed to make reference to that proceeding rather than filing new evidence. The UCA also requested a one week extension to the October 31, 2013 deadline for argument.

16. On October 30, 2013, the Commission responded to the UCA's request, granting:

5. ...all parties the opportunity to make reference to the record of Proceeding ID No. 2131 in argument and reply argument. These references will be limited to the evidence filed by Russ Bell, and all associated information request responses, rebuttal or supplementary evidence responding thereto, and transcript references.<sup>9</sup>

17. Additionally, the Commission issued the following revised schedule:<sup>10</sup>

<b>Process step</b>	<b>Deadline dates</b>
Argument	November 7, 2013, 4 p.m.
Reply argument	November 21, 2013, 4 p.m.

18. Also on October 30, 2013, AUI filed a letter with the Commission indicating that it had come to a tentative agreement on a negotiated settlement with the UCA and CCA regarding its 2013-2017 PBR Phase II application.<sup>11</sup> AUI advised that it intended to re-file its 2014 PBR annual rate filing schedules to reflect the rate structure agreed upon in the negotiated settlement process. AUI stated:

AUI recognizes the terms of the agreement and any rates are subject to final Alberta Utilities Commission's (AUC, the Commission) approval. Although the AUI rates are already interim, due to ongoing placeholders and outstanding true up adjustments, AUI proposes the 2014 Annual PBR rates, based on the proposed settlement, may be

<sup>7</sup> Bulletin 2010-16, Performance Standards for Processing Rate-Related Applications, April 26, 2010.

<sup>8</sup> Exhibit 16.01, September 27, 2014 Commission process letter.

<sup>9</sup> Exhibit 27.01, AUC letter, UCA comments on intervener evidence, October 30, 2013, paragraph 5.

<sup>10</sup> Exhibit 27.01, AUC letter, UCA comments on intervener evidence, October 30, 2013, paragraph 7.

<sup>11</sup> Application No. 1609722, Proceeding ID No. 2687.

implemented on an interim, refundable basis, pending the Commission's decision on AUI's Phase II Application.<sup>12</sup>

19. On November 4, 2013, AUI refiled its 2014 rate schedules<sup>13</sup> reflecting the changes agreed upon in the tentative Phase II agreement.

20. The Commission received argument on November 7, 2013, from the CCA, UCA and AUI.

21. The CCA submitted a letter to the Commission on November 19, 2013 making a clarification to its earlier argument, submitted on November 7, 2013.<sup>14</sup>

22. The Commission received reply argument on November 21, 2013, from the UCA, CCA, and AUI.

23. On December 11, 2013, the Commission submitted a supplemental information request<sup>15</sup> to AUI requesting an alternative set of the 2014 annual PBR rate adjustment filing schedules and 2014 rate schedules reflecting a 2014 K factor placeholder in the amount of 60 per cent of the \$2.06 million in the applied-for revenue requirement associated with the 2013 and 2014 capital trackers. AUI responded to the supplemental information request on December 13, 2013.<sup>16</sup>

24. On December 23, 2013, AUI filed a set of rate schedules that included all rate riders in addition to the distribution rates.

25. The Commission considers the record for this proceeding to have closed on December 23, 2013. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding and the portions of the record in Proceeding ID No. 2131 referred to in paragraph 16. 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 2014 I factor and the resulting I-X index for 2014**

26. In the application, AUI calculated the I factor following the Commission's directions in Decision 2012-237.<sup>17</sup> Specifically, AUI used Statistics Canada data for the Alberta average weekly earnings (AWE) at the industrial aggregate level and the all-items Alberta consumer price index (CPI) for the period July 2011 through June 2013 to derive the annual per cent change for each series. Applying the approved 55:45 weighting to the obtained AWE and CPI values, AUI calculated an inflation factor of 2.75 per cent for use in its 2014 PBR rate

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<sup>12</sup> Exhibit 28.01, AUI letter re extension for filing negotiations, October 30, 2013.

<sup>13</sup> Exhibit 39.02, final Excel rate schedules, and Exhibit 39.03, final 2014 rate schedules.

<sup>14</sup> Exhibit 34.01, CCA correspondence dated November 19, 2013, clarification of CCA argument.

<sup>15</sup> Exhibit 38.

<sup>16</sup> Exhibit 39.

<sup>17</sup> Decision 2012-237, paragraph 251.



adjustment formula.<sup>18</sup> Together with the X factor of 1.16 per cent as approved in Decision 2012-237,<sup>19</sup> this I factor results in an I-X index value of 1.59 per cent for 2014.<sup>20</sup>

27. In its IR to AUI, the UCA noted that Statistics Canada's CANSIM Table 281-0028 (Average weekly earnings (SEPH),<sup>21</sup> including overtime, seasonally adjusted, for all employees, by selected industries classified using the North American Industry Classification System), used to retrieve data for the Alberta AWE, had been terminated. The UCA queried whether Table 281-0026 (Average weekly earnings (SEPH), unadjusted for seasonal variation, by type of employee for selected industries classified using the North American Industry Classification System), should be used as a source of data for the Alberta AWE series when calculating the I factor.

28. In response to the UCA, AUI acknowledged that Table 281-0028 had been terminated. However, AUI pointed out that it had retrieved the Alberta AWE data prior to the table's termination.<sup>22</sup> AUI did not share the UCA's view that Table 281-0026 should be used to obtain data on Alberta AWE in future filings. AUI noted that Table 281-0028 was replaced by Table 281-0063 (Employment and average weekly earnings including overtime (SEPH), seasonally adjusted, for all employees by industries classified using the North American Industry Classification System), which is largely identical, except for an update to the June 2013 AWE data.

29. AUI submitted that it is appropriate to use the data from Table 281-0028 in the calculation of the 2014 I factor as this was the most current information available at the time AUI prepared and filed its annual filing. AUI further added that this approach is also consistent with Decision 2013-072, wherein the Commission rejected use of updated data for the relevant period. In support of its view, AUI referred to the following findings in Decision 2013-072:

26. The Commission agrees with the CCA's and AltaGas' view that it is generally desirable to use the most recent information available when considering a particular issue. However, in this case, given the fact that in their future I factor calculations the companies will rely on the Statistics Canada data released prior to September 10th of each year (the date of the annual PBR rate adjustment filings), the Commission considers that the use of inflation indexes published in August 2012 is acceptable for establishing the 2013 I factor.

27. Moreover, as EPCOR and the ATCO companies pointed out, in Decision 2012-237 the Commission agreed with the explanation of Dr. Ryan on behalf of EPCOR that periodic revision of inflation indexes by Statistics Canada need not affect the calculation of the I factor, provided that the unrevised value is used as the basis for subsequent calculations. Dr. Ryan explained in his PBR proceeding evidence (referenced in Decision 2012-237) that under this arrangement, the difference between the preliminary Alberta AWE value of \$1,070.68 and the subsequently revised value of \$1,068.06 will be captured in the next year's (i.e., 2014) I factor calculation.

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<sup>18</sup> Exhibit 39.02, final Excel rate schedules.

<sup>19</sup> Decision 2012-237, paragraph 515.

<sup>20</sup> Exhibit 13.02, application, paragraph 15.

<sup>21</sup> The Survey of Employment Earnings and Hours, <http://www.statcan.gc.ca/survey-enquete/business-entreprise/2612-eng.htm>.

<sup>22</sup> Exhibit 21.02, response to UCA-AUI-9.

28. For these reasons, the Commission denies the CCA's request to revise the 2013 I factor to 2.86 per cent based on the revised Statistics Canada series. The Commission accepts the 2013 I factor of 2.87 per cent calculated by the companies. Together with the X factor of 1.16 per cent approved in Decision 2012-237, this I factor value results in an I-X index value of 1.71 per cent for 2013.<sup>23</sup> [footnotes omitted]

30. In its argument, the UCA concurred with AUI's I factor of 2.75 per cent to be used in 2014. However, given that Table 281-0028 has been terminated, the UCA submitted that AUI be directed by the Commission to provide a recommendation for another source for the average weekly earnings data in its next PBR annual filing. The UCA explained that this recommendation should include the basis for using the new source for AWE in the calculation of the I factor, as well as other sources Fortis considered but rejected and the reasons for the rejection.<sup>24</sup>

31. In reply argument, the CCA agreed with the position taken by the UCA and submitted that a 2.75 per cent I factor, as calculated by AUI, is appropriate for 2014.<sup>25</sup>

### Commission findings

32. In Decision 2012-237, the Commission noted the following in respect of the I factor:

249. On the issue of the periodic revision of historical inflation indexes by Statistics Canada, the Commission agrees that Dr. Ryan's proposed method of accounting for revisions to the indexes by means of using the unrevised values in the subsequent I factor calculations represents an improvement over the rate adjustment method currently employed by ENMAX. Accordingly, the Commission finds that the periodic revision of inflation indexes by Statistics Canada need not affect the calculation of the I factor and directs the companies to use the unrevised actual index values from the prior year's I factor filing as the basis for the next year's inflation factor calculations.

250. The Commission also agrees with Dr. Ryan's recommendation that if a termination, substantial revision or substantial modification to the Statistics Canada data series used in the companies' I factors occurs, such changes should be brought forward to the Commission as part of the annual PBR rate adjustment filings. Any changes to the I factors arising from such data series modifications will be dealt with on a case-by-case basis.<sup>26</sup>

33. In this proceeding, the UCA noted that Statistics Canada Table 281-0028, used to retrieve data for the Alberta AWE as directed in Decision 2012-237, had been terminated. The UCA queried whether Table 281-0026 should be used as a source of data for the Alberta AWE series when calculating the I factor.<sup>27</sup> AUI noted that Table 281-0028 was replaced by Table 281-0063 which is largely identical, except for an update to the June 2013 AWE data.<sup>28</sup> The three Alberta AWE series discussed by the parties in this proceeding are presented in the table below:

<sup>23</sup> Decision 2013-072, paragraphs 26-28.

<sup>24</sup> Exhibit 31.02, UCA argument, paragraph 10.

<sup>25</sup> Exhibit 37.01, CCA reply argument, paragraph 5.

<sup>26</sup> Decision 2012-237, paragraphs 249 to 250.

<sup>27</sup> Exhibit 21.02, response to UCA-AUI-9.

<sup>28</sup> Exhibit 21.02, response to UCA-AUI-9.

**Table 1. Statistics Canada Alberta AWE series**

Date	Alberta AWE CANSIM 281-0028 v1597350 <sup>29</sup> \$	Alberta AWE CANSIM 281-0063 v79311387 <sup>30</sup> \$	Alberta AWE CANSIM 281-0026 v1560222 <sup>31</sup> \$
July 2011	1031.91	1,023.35	1,018.03
August 2011	1050.93	1,040.37	1,042.17
September 2011	1043.75	1,034.77	1,028.15
October 2011	1052.82	1,046.25	1,052.95
November 2011	1049.93	1,045.64	1,051.43
December 2011	1049.78	1,053.61	1,038.41
January 2012	1056.05	1,052.24	1,054.74
February 2012	1054.80	1,051.91	1,069.31
March 2012	1054.38	1,062.29	1,060.64
April 2012	1058.84	1,062.37	1,062.69
May 2012	1055.07	1,062.24	1,043.07
June 2012	1070.68	1,067.90	1,065.76
July 2012	1080.64	1,080.64	1,076.49
August 2012	1102.37	1,102.37	1,083.61
September 2012	1086.56	1,086.56	1,084.23
October 2012	1090.61	1,090.61	1,099.04
November 2012	1091.24	1,091.24	1,082.98
December 2012	1095.14	1,095.14	1,090.49
January 2013	1083.82	1,083.82	1,072.67
February 2013	1099.51	1,099.51	1,116.87
March 2013	1098.08	1,098.08	1,109.10
April 2013	1099.83	1,099.83	1,107.04
May 2013	1119.34	1,119.34	1,102.35
June 2013	1109.80	1,104.47	1,100.80

34. The Commission observes that the Alberta AWE series from Table 281-0026 discussed by the UCA in its IR, differs from the Alberta AWE series in the terminated Table 281-0028 approved for use in Decision 2012-237, in each month over the period from July 2011 to June 2013. In contrast, the Alberta AWE series from Table 281-0063 proposed by AUI, is identical to the Alberta AWE series in Table 281-0028 for the period from July 2012 to May 2013. On its webpage referring to the terminated Table 281-0028, at footnote 19, Statistics Canada indicates that, for more recent estimates, Table 281-0063 should be used.<sup>32</sup>

<sup>29</sup> Exhibit 39.02, final Excel rate schedules.

<sup>30</sup> Exhibit 21.02, UCA-AUI-9 Attachment 1.

<sup>31</sup> In its information request (Exhibit 21.02, UCA-AUI-9), the UCA only provided data from July 2012 to June 2013. Therefore the additional data was downloaded from Statistics Canada, Table 281-0026 accessed on December 2, 2013.

<sup>32</sup> <http://www5.statcan.gc.ca/cansim/a05?lang=eng&id=2810028>.

35. Further, the Commission observes that on its webpage Statistics Canada refers to Table 281-0063 as “formerly 281-0025 and 281-0028” and provides an explanation of the CANSIM changes as follows:

As of the September 27 release, data in CANSIM tables 281-0023 to 281-0046 cover the period 2001 to present. At the same time, new tables were created for the time series prior to 2001.

Two new tables were created with data starting in 2001: Table 281-0048 (formerly 281-0031 and 281-0034) and Table 281-0063 (formerly 281-0025 and 281-0028). For a concordance vector table, or for more information on these changes, contact Labour Statistics Division Client services (toll-free 1-866-873-8788; [labour@statcan.gc.ca](mailto:labour@statcan.gc.ca)).<sup>33</sup>

36. Therefore, the Commission does not consider that “a termination, substantial revision or substantial modification” to the Statistics Canada Alberta AWE series has occurred that warrant any changes to the Commission-approved I factor calculation methodology. Rather, it appears that Statistics Canada has moved these series to a new Table 281-0063 to reflect the fact that these data are now available only from 2001 onward.

37. Any difference between the Alberta AWE series in the old Table 281-0028 and the new Table 281-0063 for the month of July 2011 to June 2012 and in June 2013 appear to be attributable to periodic, ongoing revisions of the series by Statistics Canada, of the type discussed in paragraph 249 of Decision 2012-237 and dealt with in Decision 2013-072.<sup>34</sup> As set out in Decision 2012-237, these periodic revisions need not affect the calculation of the I factor, provided that the unrevised series from the prior year’s I factor filing are used as the basis for subsequent calculations.

38. For these reasons, the Commission accepts the 2014 I factor of 2.75 per cent calculated by AUI using Table 281-0028, as provided in Schedule 9<sup>35</sup> of the application. Together with the X factor of 1.16 per cent approved in Decision 2012-237,<sup>36</sup> this I factor value results in an I-X index value of 1.59 per cent for 2014.

39. The Commission finds that the series from Table 281-0026 discussed by the UCA in its information request should not be used for the purpose of the I factor calculation. The Commission directs that the Alberta AWE series from Statistics Canada Table 281-0063, data vector v79311387, be used as the labour cost component of the I factor in future PBR annual rate adjustment filings.

40. Specifically, when calculating the 2015 I factor as part of its September 10, 2014 annual PBR rate adjustment filing, AUI will be comparing the average Alberta AWE (from Table 281-0063) and Alberta CPI values for the period from July 2013 to June 2014 to the corresponding values of the Alberta AWE (from Table 281-0028) and the Alberta CPI from July 2012 to June 2013 in order to calculate the percentage change. Consistent with the Commission’s direction in Decision 2012-237, the Alberta AWE and Alberta CPI from July 2012 to June 2013 should be the same unrevised values filed in this proceeding. For convenience, these values are provided in [Appendix 3](#) to this decision.

<sup>33</sup> <http://www.statcan.gc.ca/daily-quotidien/131031/dq131031b-eng.htm>

<sup>34</sup> Decision 2013-072, paragraphs 25-28.

<sup>35</sup> Exhibit 39.02, final Excel rate schedules.

<sup>36</sup> Decision 2012-237, paragraph 515.

### 3 Y factor rate adjustments

41. The Y factors applied for by AUI in this proceeding are summarized in the following table:

**Table 2. 2014 proposed Y factors<sup>37</sup>**

Y factor	Amount (\$)
Natural gas settlement system code (NGSSC)-related costs	684,741
Intervener hearing costs	95,258
AUC assessments	295,241
UCA assessments	108,317
Temporary income tax differences	(848,083)
Disposition of deferral accounts not approved to continue under PBR	(69,759)

42. AUI submitted that certain of the Y factor cost components applied for had either been specifically approved for Y factor treatment or fell within a category of costs approved for Y factor treatment in Decision 2012-237. Accordingly, it was not necessary to consider these components against the Y factor criteria established in Decision 2012-237.<sup>38</sup>

#### Commission findings

43. In Decision 2012-237, the Commission approved certain types of costs for Y factor treatment. Included as these types of costs were “Accounts that are similar to flow-through items approved for ENMAX” discussed in Section 7.4.2.1 of Decision 2012-237, “Accounts that are a result of Commission directions” discussed in Section 7.4.2.2 and “Accounts that meet the Y factor criteria and are eligible for flow-through treatment” discussed in Section 7.4.2.3. To the extent that the company has requested Y factor treatment in 2014 for costs that fall into one of the above categories, the Commission is not required, in this decision, to determine whether those costs satisfy the criteria for Y factor treatment, set out in paragraph 631 of Decision 2012-237.

44. However, if a company applies for Y factor treatment for costs that are not of the type already approved for Y factor treatment in Decision 2012-237, the Commission is required, in this decision, to assess those costs against the Y factor criteria established in paragraph 631 of Decision 2012-237 to determine whether the applied-for costs are eligible for Y factor treatment. In its application, with the exception of the 2014 operating costs for the NGSSC project, AUI has not applied for Y factor treatment for any costs that are not of the type already approved for Y factor treatment in Decision 2012-237. The 2014 operating costs for the NGSSC project proposed for Y factor treatment are discussed in Section 3.4 below.

45. Each of the requested Y factor adjustments is discussed in sections 3.1 to 3.4 that follow. Section 3.5 deals with the allocation of Y factors to rate classes and Section 3.6 deals with the carrying costs applied to the Y factor amounts.

<sup>37</sup> Exhibit 39.02, final Excel rate schedules.

<sup>38</sup> Exhibit 21.02, AUI response to UCA-AUI-8(d).

### 3.1 AUC assessment fees, UCA assessment fees and intervener hearing costs

46. Pursuant to Section 7.4.2.2 of Decision 2012-237, AUI submitted that the AUC and UCA assessment fees and intervener hearing costs qualify for Y factor treatment.

47. AUI's forecast of AUC assessment fees, UCA assessment fees and intervener costs is comprised of two components. The first component is a forecast for 2014 AUC assessment fees, UCA assessment fees and intervener hearing costs. The second component is a true-up of AUC assessment fees and intervener hearing costs from January 1, 2013 to July 31, 2013.

48. AUI forecast the 2014 AUC and UCA assessment fees by escalating its 2013 forecast fees by the 2014 I factor of 2.75 per cent. The Commission had approved this method for forecasting the 2013 UCA assessment fees in Decision 2013-112. AUI explained that since it had not received an AUC 2014 assessment fee forecast at the time of filing the application, AUI applied the same I factor escalation method that it used to develop the 2014 UCA assessment fee forecast.

49. Similarly, AUI forecast 2014 intervener hearing costs based on the 2013 forecast escalated by the 2014 I factor of 2.75 per cent. In addition to that escalation, AUI stated that for "PBR filings such as Capital Trackers, Compliance Filings and the Phase II Filing, AUI used professional judgment in forecasting the intervener costs as there are no historical precedents for these types of proceedings for a natural gas utility in Alberta and only limited experience related to electrics."<sup>39</sup>

50. AUI included a true-up of AUC assessment fees and intervener costs, but since it did not receive formal notification of UCA assessment fees, it did not propose any true-up of actual UCA assessment fees costs in its 2014 annual PBR rate adjustment filing.<sup>40</sup>

51. The UCA stated that it accepts AUI's explanation and does not object to the inclusion of the specific amounts applied for by AUI for AUC and UCA assessments and intervener hearing costs as Y factors.<sup>41</sup>

### Commission findings

52. Paragraphs 671 and 676 of Decision 2012-237 permit the flow-through treatment of AUC and UCA assessment fees. Paragraph 673 of Decision 2012-237 indicated that intervener hearing costs approved to be paid by AUI pursuant to Commission cost decisions are a result of directions of the Commission and are therefore eligible for collection through the Y factor adjustment. The Commission has reviewed the forecast calculations submitted by AUI<sup>42</sup> and is satisfied with the explanation provided by AUI. The AUC assessment fees, UCA assessment fees and intervener hearing costs are approved for Y factor treatment, as applied for by AUI.

### 3.2 Disposition of deferral accounts not approved to continue under PBR

53. In its 2014 Y factor proposal, AUI included a one-time true-up adjustment to dispose of the residual balances related to its combined account for both AUI and intervener hearing costs and a combined non-hearing cost account related to AUC assessment fees, UCA assessment fees,

<sup>39</sup> Exhibit 13.02, application, paragraph 80.

<sup>40</sup> Exhibit 13.02, application, paragraphs 70-84.

<sup>41</sup> Exhibit 31.02, UCA argument, paragraph 32.

<sup>42</sup> Exhibit 39.02, final Excel rate schedules.

the *Gas Utilities Act Code of Conduct Regulation*<sup>43</sup> audit, customer care testing and AUC rules 002<sup>44</sup> and 003<sup>45</sup> surveys as at December 31, 2012. AUI submitted that this one-time disposal is consistent with the AUC's direction at paragraph 985 in Section 15.1.4.2 of Decision 2012-237 and is required because AUI's hearing costs are no longer recognized for deferral account treatment under PBR, and separate and distinct Y factors for AUC assessment fees, UCA assessment fees and intervener hearing costs were approved by the Commission effective January 1, 2013.<sup>46</sup>

54. In response to a Commission IR, AUI submitted revised schedules with respect to the true up amounts.<sup>47</sup> These amounts did not change in its final schedules, and consist of \$40,818 for the combined hearing account and \$26,211 for the combined non-hearing account. When income tax, and debt and equity-related costs are included, the total deferral account balance for true-up equals \$(69,759).<sup>48</sup>

55. The CCA supported the inclusion of the one-time deferral account disposal in AUI's 2014 rates.<sup>49</sup>

### Commission findings

56. In Decision 2012-237, the Commission stated:

985. To the extent that the companies had deferral accounts under cost of service regulation that have not been approved to continue under PBR in this decision, the Commission recognizes that the companies may have residual balances in the deferral accounts that need to be disposed of. The Commission determines that the companies will submit an application identifying the outstanding balances as of December 31, 2012 as part of their annual PBR rate adjustment filing for 2013.<sup>50</sup>

57. The Commission finds AUI's inclusion of a one-time true-up of 2012 deferral account balances as a Y factor to be reasonable and approves the amount as filed.

### 3.3 Income tax temporary differences

58. AUI submitted that, pursuant to Section 7.4.2.3.5 of Decision 2012-237, its income tax temporary differences costs qualify for Y factor treatment. AUI explained that its requested 2014 temporary income tax differences Y factor component arises as a result of the value of the temporary differences deducted for tax outweighing the value of the temporary differences deducted for book purposes, and that the Commission approved the inclusion of Y factor amounts for income tax timing differences as part of AUI's 2013 interim rates approved in

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<sup>43</sup> AR 183/2003.

<sup>44</sup> AUC Rule 002: *Service Quality and Reliability Performance Monitoring and Reporting for Owners of Electric Distribution Systems and for Gas Distributors.*

<sup>45</sup> AUC Rule 003: *Service Quality and Reliability Performance Monitoring and Reporting for Regulated Rate Providers and Default Supply Providers.*

<sup>46</sup> Exhibit 13.02, application, paragraph 73.

<sup>47</sup> Exhibit 23.02, AUI response to AUC-AUI-1 and 23.03, Excel rate calculation schedules.

<sup>48</sup> Exhibit 39.02, final Excel rate schedules.

<sup>49</sup> Exhibit 30.01, CCA argument, paragraph 11.

<sup>50</sup> Decision 2012-237, paragraph 985.

Decision 2013-112. For 2014, AUI has made no change in the items included by AUI as temporary tax differences from those approved in Decision 2013-112.<sup>51</sup>

59. The UCA stated that it does not object to the inclusion of temporary income tax differences as an AUI Y factor.<sup>52</sup>

### Commission findings

60. The Commission approved Y factor treatment of amounts for AUI reflecting temporary income tax timing differences in paragraphs 677 and 685 of Decision 2012-237. The Commission has reviewed the calculations submitted by AUI and is satisfied with the explanation provided by AUI. The temporary income tax differences costs are approved for Y factor treatment, as applied for by AUI.

### 3.4 Natural gas settlement system code project costs

61. In Decision 2013-072, the Commission approved the inclusion of a 2013 Y factor adjustment for the capital related costs of phase two of AUI's natural gas settlement system code (NGSSC) project:

135. ...Similar to phase one, the implementation of phase two of the NGSSC system has been previously directed by the Commission and therefore qualifies for Y factor treatment. Furthermore, NGSSC capital costs related to phase two of the project are not reflected in the company's going-in revenue.

136. Consistent with the above determinations, the Commission finds that the 2013 Y factor adjustment should include only the incremental amounts related to capital expenditures for phase two of the NGSSC project. The Commission directs AltaGas to recalculate its Y factor adjustment related to the NGSSC project to reflect the 2013 revenue associated with the midyear capital expenditures for phase two of the NGSSC project.

137. Finally, the Commission notes that AltaGas requested a delay in the implementation date for phase two of its NGSSC system from March 15, 2013 to September 1, 2013.<sup>164</sup> As well, AltaGas projected that associated phase two costs would increase from the original capital forecast of \$748,800 to \$1,613,500.<sup>165</sup> AltaGas is directed to incorporate all of these recent updates in determining the 2013 Y factor adjustment related to phase two of the NGSSC project.<sup>53</sup>

62. In the application, AUI referred to paragraph 136 of Decision 2013-072 in support of its request for Y factor recovery of phase two capital costs.<sup>54</sup>

63. AUI requested recovery of \$694,700 of 2014 costs related to its NGSSC project. This amount consists of two components. The first component totals \$149,300 and represents the 2014 forecast revenue requirement amounts associated with the capital expenditures for phase two of the NGSSC project included in the 2013 Y factor, determined on the basis of a full year cost recovery. The second component totals \$545,400 in respect of incremental operating costs associated with the NGSSC Oracle Utilities LPS (LPS) and AUI's web portal system,

<sup>51</sup> Exhibit 13.02, application, paragraphs 63 to 64.

<sup>52</sup> Exhibit 31.02, UCA argument, paragraph 32.

<sup>53</sup> Decision 2013-072, paragraphs 135 to 137.

<sup>54</sup> Exhibit 13.02, application, paragraph 54.



Nomination, Imbalance and Settlement Information System (NISIS) application support services.<sup>55</sup>

64. AUI updated its total 2014 NGSSC-related requested recovery amount to \$684,741. The difference is due to a reduced amount (\$139,300 versus the \$149,300 in the application) of capital-related costs associated with the second phase system capital costs. AUI explained the reason for the difference from the capital cost forecast in the application:

Based on a current forecast as at October 21, 2013, the 2013 NGSCC Phase Two project capital expenditures are forecast at \$2.73 million and reflect actual capital costs incurred to September 30, 2013, of \$2.47 million. This forecast update reflects a decrease of \$0.24 million as compared to the \$2.97 million forecast provided in AUI's 2014 Annual PBR Filing...<sup>56</sup>

65. AUI stated that the \$545,400 of 2014 forecast operating costs were not included in AUI's operating costs approved for recovery in 2012 and 2013. AUI explained that these costs were not known or contemplated at the time that AUI applied for recovery of operating costs for the NGSSC project. Consequently, they were not included in the 2012 or 2013 forecasts of NGSSC project operating costs.<sup>57</sup>

66. AUI further elaborated that upon completion of the NGSCC project's phase two functional requirements in June 2013, it developed its understanding of the additional costs for application support and realized that the effort, required skills and costs associated with application support exceeded, and were not contemplated, within any of AUI's previous forecasts. The NISIS, which was the second phase of the NGSCC project went live on November 1, 2013. As a result, AUI explained that it has been able to revisit post go-live responsibilities, such as application support, only in late September and early October, when it finalized its evaluation of viable application support options.<sup>58</sup>

67. The UCA stated that it does not object to the inclusion in the 2014 Y factor adjustment of the impact of the capital-related costs associated with AUI's investments in phase two of its NGSSC project.<sup>59</sup> However, the UCA took issue with the inclusion of the operating costs associated with NGSCC's system application support services. The UCA noted that in Decision 2013-072,<sup>60</sup> the Commission approved an adjustment of \$509,300 to its going-in revenue to account for the full annualized impact of the NGSSC project's operating costs, along with the \$174,200 in operating costs included in the approved 2012 revenue. The UCA highlighted Commission findings in Decision 2013-072, that "in granting this going-in rate adjustment, no further Y factor applications will be required with respect to NGSSC operating costs."<sup>61</sup>

68. The UCA argued that AUI wants rate payers to pay for its forecasting errors and that it did not raise or address this in either PBR compliance filing, resulting in Decision 2013-072 and Decision 2013-270, nor in any review and variance application. The UCA concluded by saying:

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<sup>55</sup> Exhibit 13.02, application, paragraphs 56 to 57.

<sup>56</sup> Exhibit 23.04, AUI response to UCA-AUI-6f.

<sup>57</sup> Exhibit 13.02, application, paragraph 58.

<sup>58</sup> Exhibit 23.04, AUI response to UCA-AUI-6f.

<sup>59</sup> Exhibit 31.02, UCA argument, paragraph 33.

<sup>60</sup> Decision 2013-072, paragraphs 131-133.

<sup>61</sup> Decision 2013-072, paragraph 134.

...in a PBR environment the risk of forecast operating costs not matching up with actual costs falls on the utility's shareholders rather than customers. There must be finality with a Commission's Decision subject to a review and variance application and/or an appeal. The UCA does object to including the NGSSC project's operating costs of \$545,400, and recommends they be disallowed.<sup>62</sup>

69. AUI responded to the UCA's argument submitting:

Although the UCA views these costs as 'new', AUI submits the timing of the costs is driven by the nature and complexity of the project, as well [as] completion of the project [on] November 1, 2013. Specifically, the NGSSC is a significant undertaking, which required extensive restructuring of AUI's gas settlement processes and the development and implementation of systems to facilitate AUI/Market communications and data transfer. Although modelled after the ATCO Gas system, there was no pre-existing application readily accessible or available for purchase to enable compliance with AUC Rule 028. Simply stated, implementation of this system was a 'green field' type of project, requiring continual review and adjustments to address internal and external functionality. [Application 1609176, I.D. 2335; Application 1609741, I.D. 2700]. AUI submits a forecast for application support was not possible until all system requirements were known and fully understood.

70. AUI submitted that since the NGSCC system was not fully implemented until November 1, 2013, these operating costs relate to 2014 and onwards and that this annual rate filing is the first and most appropriate point for bringing forth the best forecast it has for these costs. AUI submitted that the additional requirements for ongoing system operations could not have been accurately forecast at the time of the PBR compliance filings and that prohibiting recovery of costs required for ongoing operation of this AUC stipulated system would be inappropriate and unreasonable.

71. AUI also submitted that the UCA's argument fails to take into consideration that the Commission's conclusion in Decision 2013-072 related to the discussion of the NGSSC project's operating costs being applied for at that time, which mainly comprised of daily settlement operation staffing costs.

72. AUI submitted that the additional NGSCC operating costs meet the criteria set by the Commission for Y factor adjustments in Decision 2012-237 as the costs are:

- externally driven (by the AUC) and therefore outside management's control
- material and exceed AUI's 2014 Y factor materiality threshold of \$0.318 million, with a significant impact to influence AUI's operations
- unlikely to impact the inflation factor in the PBR formula, as they are for new and specified services, rather than costs to address escalation of rates from one or more vendors
- prudently incurred as supported by its evaluation of alternatives, justification of recommended approach and cost estimates as described in sections 5.0, 6.0 and 8.0, of the business case attached to UCA.AUI-6(b)<sup>63</sup>
- expected to be ongoing and recurring in nature and have the potential for a high level of variability in the annual financial impacts<sup>64</sup>

<sup>62</sup> Exhibit 31.02, UCA argument, paragraphs 38 to 39.

<sup>63</sup> Exhibit 21.08, AUI business case, cost assessment for application support for LPS and NISIS systems.

## Commission findings

73. The Commission has reviewed schedules 6.1 and 7<sup>65</sup> and is satisfied with the calculation of \$139,300 reflecting the 2014 full year impact of phase two of AUI's settlement system-related costs, previously approved for inclusion as a Y factor in decisions 2013-072 and 2013-270. This adjustment is based on a total forecast project capital cost of \$2.73 million. The Commission approves the inclusion of this component pertaining to the capital costs of AUI's settlement system in AUI's 2014 Y factor adjustment. AUI indicated that the settlement system was fully implemented on November 1, 2013. Accordingly, the capital costs for phase two of the NGSSC project will be subject to true-up in AUI's next annual PBR rate adjustment application.

74. In making its determination regarding AUI's requested inclusion of settlement system-related operating costs related to application support services, the Commission is aware that AUI's previous settlement process was significantly different than that required by AUC Rule 028<sup>66</sup> and understands that building AUI's new settlement system was a significant undertaking which required extensive restructuring of AUI's gas settlement processes in order to comply with AUC Rule 028. Given the "green-field" nature of the project and that the second phase of the project was not implemented until November 1, 2013, the Commission finds it reasonable that the timing of these newly identified costs has been driven by the nature and complexity of the project, that a forecast of application support was not possible until all system requirements were known and fully understood, and that AUI could not forecast or estimate the application support services that would be required to provide application support services for its gas settlement applications earlier in 2012 or 2013. The Commission has also reviewed AUI's business case<sup>67</sup> and is satisfied with the alternatives and methodologies used by AUI to forecast costs for its settlement system application support services. The Commission considers that AUI has reasonably justified the need for and reasonableness of these incremental operating costs.

75. At the time the Commission made its finding in Decision 2013-072 that no further Y factor applications will be required with respect to NGSSC-related operating costs, the extension to AUI's implementation of phase two from March 15, 2013 to September 1, 2013 and subsequently from September 1, 2013 to November 1, 2013 had not yet been granted.<sup>68</sup> The Commission's findings regarding the operating costs were made in light of the information available to AUI and parties at that time.

76. The Commission finds that the operating costs meet the criteria established by the Commission to be treated as a Y factor in Decision 2012-237 including previous Commission direction regarding the need for AUI to be in compliance with AUC Rule 028. Accordingly, the settlement system operating costs of \$545,400 are approved to be included as an AUI's Y factor in 2014.

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<sup>64</sup> Exhibit 35.01, AUI reply argument, paragraphs 3 to 9.

<sup>65</sup> Exhibit 39.02, final Excel rate schedules.

<sup>66</sup> AUC Rule 028: *Natural Gas Settlement System Code Rules* (AUC Rule 028).

<sup>67</sup> Exhibit 21.08, AUI business case, cost assessment for application support for LPS and NISIS systems.

<sup>68</sup> The extension from March 15, 2013 to September 1, 2013, had been granted in 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.

The extension from September 1, 2013 to November 1, 2013, was granted in 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.

### 3.5 Allocation of Y factors to rate classes

77. Consistent with Commission direction in Section 3.3 of Decision 2012-237, AUI submitted that it allocated the 2014 Y factor adjustments based on the proportionate share of 2014 base revenue per customer class.<sup>69</sup>

78. In its argument, AUI further clarified:

As compared with the 2014 allocation, described above, for the 2013 interim rates, the allocation of the total Y Factor amount by rate class was done on the basis of the combined delivery and DSP revenues by rate class. There are two reasons for the change from the method used for the 2013 interim rates. First, in the 2014 Application, the DSP costs and revenues are separated from delivery costs and revenues, based on the COSS included as part of AUI's Phase II Application. Second, since the various Y Factor adjustments (NGSSC Costs, Income Tax temporary differences, AUC/UCA Assessments and Intervener Hearing Costs) do not apply to the components of the DSP costs, the Y Factor amounts were not allocated to DSP fee revenues in the 2014 Annual Filing.<sup>70</sup>

79. No party objected to AUI's proposed Y factor allocation methodology.

### Commission findings

80. The Commission is satisfied that AUI has allocated its Y factor amounts according to Commission direction and approves the methodology as filed.

### 3.6 Carrying costs in the Y factor amounts

81. In response to a UCA IR, AUI explained its calculation of carrying costs applied to the Y factor amounts. AUI quoted the Commission from paragraph 983 in Decision 2012-237, where it stated:

Carrying charges on balances that are subject to true up will be calculated using an interest rate equal to the Bank of Canada's Bank Rate plus 1½ per cent, **subject to any previously approved Commission procedure for awarding interest on accounts that existed prior to implementation of PBR.** This interest rate is consistent with AUC Rule 023, however the regulatory lag and materiality requirements of Rule 023 will not apply. (emphasis added by AUI)

82. AUI cited the exception referred to above from paragraph 983 of Decision 2012-237 to support its proposed carrying charges. AUI submitted that, consistent with the Commission's direction, AUI has treated Y factor balances as necessary working capital (NWC), which was the treatment previously approved for deferral accounts prior to implementation of PBR. A working capital allowance is included in rate base to compensate investors for the cost of capital required to bridge the lag between expenditures and their recovery. AUI used two methods to determine its forecast for NWC: a mid-year calculation for all working capital components, other than cash, and a lead-lag calculation for cash working capital. AUI submitted that both of these methods have been historically used by AUI and, most recently, approved by the Commission in AUI's 2010-2012 Phase I GRA and Decision 2013-072 with respect to AUI's PBR Second Compliance Filing. Accordingly, AUI submitted that the amounts shown in Schedules 6.2-6.4,<sup>71</sup> such as the

<sup>69</sup> Exhibit 13.02, application, paragraphs 85-86.

<sup>70</sup> Exhibit 32.01, AUI argument, paragraph 44.

<sup>71</sup> Exhibit 23.03, AUC-AUI-1, Attachment 1.

amounts relating to return and income taxes reflect amounts of NWC attributable to the AUC and UCA assessment fees and intervener hearing costs. AUI added that for Y factor amounts related to NGSSC-related costs and tax differences, an amount for NWC is calculated in the same manner as for other Y factors. However, the tax differences result in a NWC of nil, as the tax timing differences do not result in direct expenditures covered by cash working capital.<sup>72</sup>

83. In reply argument, the CCA took issue with AUI's proposal to apply the weighted average cost of capital (WACC) to its Y factor balances. The CCA argued that to the extent the various cost components included in AUI's Y factor balances would typically be part of NWC, the I-X mechanism would provide an adequate augmentation to the return earned by AUI. Since costs such as intervener hearing costs and the AUC and UCA assessments are operational and generally short-term in nature, the CCA recommended that any true-up of such costs should be calculated using the interest rate prescribed in AUC's Rule 023 and not WACC. The CCA underscored that AUI's proposal is further inappropriate for true-up purposes in light of the fact AUI did not demonstrate it has used both short term and long term debt for financing the true-up amounts.<sup>73</sup>

### Commission findings

84. With respect to AUI's use of WACC for calculating carrying charges on its Y factor amounts, the Commission observes that this method was adopted by AUI in its 2010-2012 general rate application and approved by the Commission in Decision 2012-091,<sup>74</sup> and most recently in Decision 2013-072. Accordingly, for the purposes of this decision, the Commission approves AUI's calculation of carrying charges on its Y factor amounts. The Commission directs AUI, in its next PBR annual rate adjustment filing, to discuss whether carrying charges should continue to be calculated based on the company's WACC rather than using the method set out in AUC Rule 023.

## 4 K factor placeholder

85. In Decision 2013-072, the Commission directed AUI to include, on an interim basis, a K factor placeholder equal to 60 per cent of the K factor amounts applied for in the 2013 capital tracker proceeding, Proceeding ID No. 2131.<sup>75</sup> Pending the outcome of that proceeding, AUI included a K factor placeholder in its 2014 PBR rate adjustment filing. AUI noted that the inclusion of a K factor placeholder "will allow AUI to recover its capital tracker related costs earlier in the year to avoid potential rate shock to customers."<sup>76</sup> According to AUI, the inclusion of a K factor placeholder for 2014 will also mitigate the lag in the regulatory timetable and related timing impacts on future PBR rate filings.

86. In calculating its 2014 K factor placeholder amount, AUI relied on the forecast of its 2014 capital tracker investments for the three capital programs proposed for capital tracker treatment in 2013 in Proceeding ID No. 2131: the pipe replacement program, the station refurbishments program, and the gas supply program. AUI noted that the 2014 forecast capital

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<sup>72</sup> Exhibit 23.05, response to UCA-AUI-11.

<sup>73</sup> Exhibit 36.01, CCA reply argument, paragraph 12.

<sup>74</sup> Decision 2012-091: AltaGas Utilities Inc. 2010-2012 General Rate Application – Phase I, Application No. 1606694, Proceeding ID No. 904, April 9, 2012.

<sup>75</sup> Decision 2013-072, paragraph 41.

<sup>76</sup> Exhibit 13.02, revised application, paragraph 87.

tracker investments are essentially a continuation of ongoing programs proposed for capital tracker treatment in that proceeding. AUI then calculated the cumulative revenue requirement associated with its 2013 and 2014 forecast capital expenditures proposed to be recovered by way of capital trackers, by isolating the revenue requirement impact of the underlying capital tracker assets, including depreciation, return on debt and equity and related income taxes. From this revenue requirement amount, AUI subtracted the revenue to be provided under the I-X mechanism (including customer growth) for these capital tracker programs in 2014. The entire amount of \$2.06 million in revenue requirement associated with capital tracker programs and not funded under the I-X mechanism was proposed to be included in the 2014 K factor placeholder.<sup>77</sup>

87. In AUC-AUI-3, the Commission asked AUI to file a set of schedules reflecting a 2014 K factor placeholder equivalent to 60 per cent of the \$2.06 million in applied-for revenue requirement associated with its capital tracker programs.<sup>78</sup> Table 3 below details the AUI 2014 K factor placeholder calculations:

**Table 3. 2014 proposed K factor placeholder**

Line No.	Item	Amount (\$ million)	Note
1	2013 applied-for K factor	0.995	Table 1 of Decision 2013-072
2	2013 K factor placeholder approved in Decision 2013-072	0.600	=0.995×60%
3	2014 cumulative revenue requirement associated with AUI's capital tracker programs	3.398	Exhibit 29.02, Schedule 8.0
4	Revenue provided under the I-X mechanism in 2013	1.342	Exhibit 29.02, Schedule 8.0
5	2014 proposed K factor placeholder	2.056	=2.056-1.342
6	60% of 2014 proposed K factor placeholder	1.234	Exhibit 39.02, AUC-AUI-3

88. As discussed in Section 1, in response to the UCA's submission, the Commission granted all parties the opportunity to make reference to the record of Proceeding ID No. 2131 in argument and reply argument, as it pertains to the evidence filed by Mr. Bell, and all associated IR responses, rebuttal or supplementary evidence responding thereto, and transcript references. Both EDTI and the UCA discussed, at length, Mr. Bell's evidence filed in Proceeding ID No. 2131.

89. The UCA expressed its view that "AUI is attempting to receive, as a proxy amount for 2014, 100% of the 2013 K factor funding (of which the AUC only allowed 60% as an interim rate) without a proper examination of the considerations from the original PBR decision and ignoring the evidence of Mr. Bell from the 2013 Capital Tracker Proceeding ID 2131."<sup>79</sup> The UCA argued that the evidence submitted by Mr. Bell in Proceeding ID No. 2131 demonstrates that none of the proposed 2013 capital tracker projects satisfies all three criteria for capital tracker treatment established at paragraph 592 of Decision 2012-237. The UCA argued that until "the capital tracker decision for 2013 is rendered, it is not reasonable to include any amount as a placeholder for 2014 capital trackers, let alone to [include] 100% requested by AUI."<sup>80</sup> The UCA stated:

<sup>77</sup> Exhibit 13.02, revised application, paragraphs 91-92 and Exhibit 29.02, Schedule 8.0.

<sup>78</sup> Exhibit 38.02, AUC-AUI-3.

<sup>79</sup> Exhibit 36.02, UCA reply argument, paragraph 7.

<sup>80</sup> Exhibit 36.02, UCA reply argument, paragraph 12.

Given the obvious uncertainty about the determination of 2013 CT amounts for which the 2014 CT amounts in this application are entirely dependent, it would be inappropriate to award any placeholders for 2014 K factors until the Commission has ruled on the 2013 CT Proceeding. Once the decision related to the 2013 CT Proceeding has been rendered, and AUI has re-filed its 2014 CT application, the AUC and other parties will be in a position to objectively assess the AUI's 2014 CT application.<sup>81</sup>

90. The CCA submitted that it is in general agreement with the evidence filed by the UCA in Proceeding ID No. 2131, allowed as evidence in the current application, which concluded that the projects proposed by AUI as K factor adjustments do not meet all of the capital tracker criteria set out in Decision 2012-237.<sup>82</sup>

91. The CCA also noted that AUI has requested a 100 per cent recovery of depreciation, return and income taxes associated with the 2014 capital tracker costs. Consistent with the findings in Decision 2013-072, the CCA recommended that should AUI be allowed to recover any amount in respect of its proposed K factor, that it be allowed to recover only 60 per cent of the 2014 proposed capital tracker costs on an interim basis.<sup>83</sup> In reply argument, the CCA clarified the latter point indicating "should the Decision on Proceeding ID. 2131 indicate some portion of the proposed capital trackers should be approved, an inclusion of up to 60% of the proposed K Factor amounts for 2014, on an interim and refundable basis, would avoid a potential rate shock and allow for intergenerational equity."<sup>84</sup>

92. In argument, AUI conceded that only 60 per cent of applied-for 2013 K factor amount was approved for inclusion in the 2013 PBR interim rates. However, AUI did not support a similar reduction being applied when establishing the 2014 PBR interim rates. AUI provided the following reasons in support of its view:

First, in AUI's submission, each of its K Factor projects fully meets the criteria set forth by the AUC for establishment of capital trackers. Consequently, AUI considers it reasonable and appropriate to reflect full recovery of these amounts to mitigate regulatory lag and maintain rate stability for customers.

Second, by arbitrarily reducing the forecast amount required by 40% for a second year, the impact of subsequent true ups is greatly magnified.

Third, although Decision 2013-072 directed 2013 interim rates reflect 60% recovery of applied-for 2013 K Factor adjustments, there was no reference to the applicability of this reduction to future annual rate filings, including the 2014 Annual Rate Filing.

Finally, AUI notes the 2013 Capital Tracker Decision is expected before the end of November 2013, and will likely result in some adjustment to 2014 rates to take into account adjustments in recovery of 2013 and 2014 forecast amounts. In AUI's submission, it is reasonable, appropriate and more transparent to provide the expected changes arising from full recovery of 2014 forecast amounts, rather than inclusion of some arbitrary percentage.<sup>85</sup>

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<sup>81</sup> Exhibit 31.02, UCA argument, paragraph 28.

<sup>82</sup> Exhibit 34.01, CCA argument, paragraph 17.

<sup>83</sup> Exhibit 34.01, CCA argument, paragraph 27.

<sup>84</sup> Exhibit 36.01, CCA reply argument, paragraph 4.

<sup>85</sup> Exhibit 21.02, UCA-AUI-7.

93. Accordingly, for purposes of establishing its 2014 PBR interim rates, AUI requested approval of the applied-for K factor amount of \$2.06 million.<sup>86</sup> AUI considered “it reasonable and appropriate to reflect full recovery of the entire amount. This should minimize regulatory lag and provide greater rate stability for customers, as compared to use of some reduced percentage.”<sup>87</sup>

### Commission findings

94. On December 6, 2013, the Commission issued Decision 2013-435<sup>88</sup> dealing with the 2013 capital trackers Proceeding ID No. 2131. This decision set out the Commission’s determinations on the application and interpretation of the capital tracker criteria, as well as the Commission’s analysis on which projects meet the criteria and qualify for capital tracker treatment. As part of that decision, the Commission addressed the views of the UCA, Mr. Bell, and AUI that have been referred to in this proceeding.

95. In Decision 2013-435, the Commission approved capital tracker treatment for the three AUI programs applied for in its 2013 capital tracker application. The Commission approved the resulting 2013 K factor of \$1.031 million to be recovered from customers on an interim basis. AUI was directed to file an application for an adjustment to its Rate Rider F to collect, on an interim basis, the 2013 K factor amount in excess of the 60 per cent K factor placeholder amount that was included in AUI’s 2013 PBR rates. The Commission also indicated that AUI’s 2014 K factor placeholder proposed in its 2014 annual PBR rate adjustment filing was not to be modified to account for the 2013 K factor amount.<sup>89</sup> Finally, the Commission directed all the companies subject to that decision, including AUI, to “file on or before March 1, 2014, a single application for capital trackers proposed for 2014 and 2015.”<sup>90</sup>

96. When assessing the need for the 2013 K factor placeholder in Decision 2013-072, the Commission stated the following:

40. Given the volume of information included in the companies’ capital tracker applications filed in Proceeding ID No. 2131, and the complexity of the issues involved, the Commission does not expect a final decision in that proceeding to be issued until later in 2013. In light of these circumstances and due to the materiality of the K factor amounts applied for in Proceeding ID No. 2131, the Commission sees merit in the ATCO companies’ proposal to begin recovery of capital tracker related costs earlier in the year by way of a K factor placeholder in order to avoid potential rate shock. Furthermore, because placeholders are approved on an interim refundable basis (i.e., subject to future reconciliation), customers’ interests will be protected.<sup>91</sup>

97. Given that the proposed 2014 capital tracker projects will not be identified, and the 2014 K factor forecast may not be available before March 1, 2014, and given that the nature of the 2014 capital tracker proceeding will be similar in nature to the 2013 capital tracker proceeding, the Commission considers that the reasoning in Decision 2013-072 applies to a consideration of

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<sup>86</sup> Exhibit 32.01, AUI argument, paragraph 48.

<sup>87</sup> Exhibit 35.01, AUI reply argument, paragraph 11.

<sup>88</sup> Decision 2013-435: Distribution Performance-Based Regulation 2013 Capital Tracker Applications Application No. 1608827 Proceeding ID No. 2131 December 6, 2013.

<sup>89</sup> Decision 2013-435, paragraphs 598, 600 and 601.

<sup>90</sup> Decision 2013-435, paragraph 1073 (a).

<sup>91</sup> Decision 2013-072, paragraph 40.



the 2014 K factor placeholder proposed by AUI. Accordingly, the Commission considers that a K factor placeholder should be implemented for 2014 to avoid potential rate shock.

98. The Commission does not agree with AUI's proposal that the entire amount of \$2.06 million in revenue requirement associated with the proposed 2014 capital tracker programs which AUI indicates are not funded under the I-X mechanism be included in the 2014 K factor placeholder.<sup>92</sup> Although AUI has indicated that the 2014 capital tracker projects will be a continuation of the 2013 capital tracker programs and has provided preliminary cost forecasts,<sup>93</sup> the details of those programs were not provided in the application and will not be available until AUI files its 2014 capital tracker application on or before March 1, 2014. In similar circumstances, the Commission determined in Decision 2013-072 that "a placeholder equal to 60 per cent of the K factor amounts applied for in the capital tracker proceeding, provides for a reasonable balance between the companies' 2013 forecast rate adjustments related to capital trackers, and potential customer rate shock implications."<sup>94</sup> The CCA stated that "should the Decision on Proceeding ID. 2131 indicate some portion of the proposed capital trackers should be approved, an inclusion of up to 60% of the proposed K Factor amounts for 2014, on an interim and refundable basis, would avoid a potential rate shock and allow for intergenerational equity."<sup>95</sup> The Commission agrees.

99. Accordingly, the Commission finds that a placeholder equal to 60 per cent of the 2014 K factor amount of \$2.06 million should be included in AUI's 2014 PBR interim rates. In AUC-AUI-3, AUI calculated this amount to be \$1.234 million.<sup>96</sup>

100. For the reasons above, the Commission approves the K factor placeholder in the amount of \$1.234 million to be included in AUI's 2014 PBR interim rates. The Commission considers that this placeholder amount provides funding to AUI on a timely basis, reduces the potential for intergenerational inequity and avoids potential customer rate shock implications. This 2014 K factor placeholder is to be in place until otherwise directed by the Commission.

## **5 Billing determinants forecast**

101. AUI explained that it developed the 2014 forecast billing determinants utilizing the same forecast methods employed to arrive at the 2013 billing determinants and subsequent interim rates, as approved in Decision 2013-072. AUI indicated that its approach uses the forecast methods generally consistent with those utilized in its most recent 2010-2012 general rate application. AUI also incorporated minor changes to its forecast methods in accordance with the Commission's direction in Decision 2012-237.

102. The CCA asked AUI to update its forecast of the number of customers to include the most recent month of available actuals. AUI responded that the most recent actuals data available is June 2013 but the inclusion of the June data would not affect the forecast that AUI submitted in the application. AUI offered that the inclusion of the June actuals might affect the allocation of customers between default and retail supply and increases or decreases to the monthly

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<sup>92</sup> Exhibit 13.02, revised application, paragraphs 91-92.

<sup>93</sup> Exhibit 13.02, revised application, paragraphs 89-90.

<sup>94</sup> Decision 2013-072, paragraph 41.

<sup>95</sup> Exhibit 36.01, CCA reply argument, paragraph 4.

<sup>96</sup> Exhibit 39.02, AUC-AUI-3.

allocation of customer numbers, but would have a negligible effect on 2014 rates.<sup>97</sup> AUI reinforced its view in argument, stating:

...as customer number trends are relatively stable, the inclusion of actual June 2013 data would have minimal impact on the 2013 forecast reported in the 2014 Annual Filing. As a result, AUI submits the numbers presented in Table 2.2.1-1 of the 2014 Annual Filing provide a reasonable basis for forecasting 2014 customer numbers.<sup>98</sup>

103. In reply argument, the CCA submitted:

... there is no evidence to support AUI's assertion that the inclusion of "actual June 2013 data would have a minimal impact on the 2013 forecast". In our view, the 2014 forecast number of customers should reflect the most recently available actual data.<sup>6</sup> Even if AUI's assertion of a minimal impact for 2014 is correct, it may only be so for 2014; there is no assurance that such will be case for the remainder of the 2013-2017 PBR Term. Commencing the 2015 Annual PBR Filing, the CCA recommends AUI be directed to reflect the actual data available for the most recent period (as opposed to simply using the January to May period) month, and forecast for the remainder of the year, in order to derive the forecast customer numbers.<sup>99</sup>

<sup>6</sup> This concept was reiterated by the AUC in Decision 2013-072, where at Para 26, the AUC stated "that it is generally desirable to use the most recent information available when considering a particular issue."

### **Commission findings**

104. Consistent with paragraph 26 of Decision 2013-072 referred to by the CCA, the Commission considers that it is generally desirable to use the most recent information available. However, in this case, the Commission accepts AUI's explanation that an updated forecast of the number of customers would not result in a meaningful change to its proposed 2014 rates. This finding balances regulatory efficiency with opportunities for more precision, and adequately maintains rate stability while minimizing intergenerational inequity.

105. The Commission has reviewed AUI's forecasting methodology for its 2014 usage-per-customer and number of customers and finds it conforms with methodologies previously approved by the Commission. The Commission finds the forecast to be reasonable. The Commission approves the 2014 billing determinants forecast as applied for.

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<sup>97</sup> Exhibit 20.01, response to CCA-AUI-5(d).

<sup>98</sup> Exhibit 32.01, AUI argument, paragraph 18.

<sup>99</sup> Exhibit 37.01, CCA reply argument, paragraph 9.

## 6 Utilization of rate riders

106. In Decision 2013-072, the Commission approved the following riders outside of the PBR formula for AUI to use in 2013:<sup>100</sup>

**Table 4. AUI riders approved for 2013 in Decision 2013-072**

Rider	Description
Rider A franchise fees	Franchise fees are paid to municipalities in consideration of the exclusive grant of a franchise and for the ability to put gas distribution facilities on land owned by the municipalities.
Rider B property tax	Property taxes are levied by municipalities against AUI's land and buildings, linear property, machinery and equipment.
Rider C deemed cost of gas	Rider C is a deemed calculation used where municipalities calculate the franchise fee on both natural gas charges and delivery charges for customers being served by a competitive retailer. Rider C is necessary to ensure the franchise fee is charged in a fair way, whether a customer buys competitive gas supply or default gas supply.
Rider D gas cost recovery	The gas cost recovery rate is the cost per gigajoule, approved by the AUC on a monthly basis, for the cost of natural gas provided to default supply customers plus any procurement costs, management fees, bad debt, penalty revenue or carrying costs of cash working capital related to providing natural gas to its customers.
Rider E unaccounted for gas	Rate Rider E is used in calculating Rider D, Rider G and in determining the amount of gas to be delivered to AUI by retailers. Rider E is designed to allow AUI to recover its annual line losses and is approved on an annual basis by the AUC.
Rider F deficiency or refund rider	Rider F is used to recover a deficiency or refund a surplus resulting from the difference between interim and final rates.
Rider G third party transportation	Rider G is the cost per gigajoule, approved by the AUC on a monthly basis, for third party transportation costs incurred by AUI for transporting gas to customers on a third party's pipeline (e.g. TCPL, ATCO Pipelines, municipal systems).

107. In Decision 2013-072, the Commission also noted that it will review the continued need for these riders at the time of the companies' next respective rider applications, if filed prior to the annual PBR rate adjustment filing, or at the time of the September 10, 2013 company filings. The Commission directed all companies, including AUI, in their September 10, 2013 filings, to address the continuing need for each of the riders.<sup>101</sup>

108. AUI submitted that the continued use of the above riders in 2014 and for the balance of the PBR term remains appropriate. The existing riders are required "as part of AUI's Default Supply function, are necessary to meet franchise agreement requirements or the circumstances warranting the underlying deferral mechanism exist or may arise during the PBR term."<sup>102</sup>

109. In addition to the riders approved in Decision 2013-072, AUI subsequently applied for Rider H – Unaccounted-for Gas (UFG) in Proceeding ID No. 2721, which resulted in Decision [2013-367](#).<sup>103</sup> AUI explained that rider H is required as part of the NGSSC processes and is based on system deliveries as required by AUC Rule 028. Rider H is determined using the same data and method approved for determining Rider E, the only difference being the divisor used in the UFG calculations. Specifically, the NGSSC requires Rider H uses deliveries in calculating the UFG; whereas Rider E uses system receipts. Rider E continues to be required as producers on

<sup>100</sup> Decision 2013-072, Appendix 4.

<sup>101</sup> Decision 2013-072, paragraph 78.

<sup>102</sup> Exhibit 12.02, revised application, paragraph 98.

<sup>103</sup> Decision 2013-367: AltaGas Utilities Inc. Application Requesting a New Rate Rider H (Unaccounted-for Gas) for Compliance with AUC Rule 028, Application No. 2721, September 27, 2013.

AUI's system do not have delivery meters. Consequently, UFG must be calculated and applied on the basis of system receipts. AUI confirmed that similar to Rider E, it will apply to the Commission for approval of Rider H on an annual basis.<sup>104</sup>

110. AUI stated that it also applied for the load balancing deferral account (LBDA) and associated Rate Rider L in Proceeding ID No. 2772, which subsequently resulted in Decision 2013-395.<sup>105</sup> AUI explained that the LBDA and rider mechanism are required to facilitate its compliance with AUC Rule 028, ensure implementation of the LBDA corresponds with that of AUI's web portal and assist AUI in meeting its ongoing responsibilities related to gas balancing on its distribution system.<sup>106</sup>

111. No party objected to AUI's use of the proposed rate riders in 2014.

### Commission findings

112. In Decision 2012-237, the Commission recognized that there is a need to recover some of the approved flow-through items through separate riders, as these items do not correspond to the timing of the annual PBR rate adjustment proceeding:

984. As discussed in Section 7.4.3, flow-through items currently collected by way of separate rider will be collected using the existing methodology and rider mechanism outside of the annual PBR rate adjustment filing process to recognize that these flow-through items are currently processed throughout the year. As a result, applications related to flow-through items may be submitted throughout the year.<sup>107</sup>

113. In Decision 2013-367, the Commission approved the use of the UFG Rider H for AUI. In Decision 2013-395, the Commission approved the creation of the LBDA and associated Rate Rider L.

114. The Commission has reviewed the riders that AUI proposes to use in 2014. The Commission finds that these riders are necessary to deal with certain flow-through or Commission-directed items (i.e., Y factors) approved by the Commission for inclusion in AUI's PBR plan. Accordingly, for the purposes of this decision, the Commission approves the use of the riders identified in [Appendix 4](#) to this decision for AUI in 2014.

115. The Commission will review the continuing need for all the riders set out in Appendix 4 at the time of the September 10, 2014 company filings. Accordingly, AUI is directed, in its September 10, 2014 filing, to address the continuing need for each of these riders.

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<sup>104</sup> Exhibit 12.02, revised application, paragraphs 99 and 100.

<sup>105</sup> 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.

<sup>106</sup> Exhibit 12.02, revised application, paragraph 101.

<sup>107</sup> Decision 2012-237, page 210, paragraph 984.

## 7 Terms and conditions of service

116. AUI did not propose any changes to its terms and conditions of service as part of the application. However, AUI did include its special charges schedule<sup>108</sup> as an appendix to the application and proposed to adjust each of the 2013 special charges by the 2014 I-X index of 1.59 per cent.

117. In Proceeding ID No. 2687, AUI's 2013-2017 PBR Phase II application, currently before the Commission, AUI has proposed that the special charges schedule be removed from its terms and conditions of service and be filed instead as a separate document.<sup>109</sup> In that proceeding AUI submitted that the separation should allow for easier and faster reference by customers. Also, as previously directed by the Commission, under PBR, the rates in the special charges schedule will be escalated annually by the I-X index. As such, AUI submitted that review of the special charges schedule on a stand-alone basis by the AUC is more efficient.<sup>110</sup>

### Commission findings

118. The Commission finds that AUI escalated its special charges and standard contribution amounts as directed by the Commission in Decision 2013-095. The Commission approves these amounts, as filed by AUI on an interim basis, pending a decision of the Commission on the revised terms and conditions of service in Proceeding ID No. 2687.

## 8 Rate methodology, rate calculations and the resulting 2014 PBR interim rates

### 8.1 Basing 2014 PBR rates on the 2012 cost of service study

119. AUI pointed out that it had not completed a 2012 Phase II cost of service study (COSS) and rate design at the time when PBR was implemented on January 1, 2013. As a result, to develop its 2013 PBR interim rates, AUI used the existing approved 2008-2009 COSS using 2012 billing determinants. AUI explained that using the 2008-2009 study has its inherent limitations as it does not recognize changes in costs at functional levels. In addition, the 2008-2009 COSS is also limited as it does not identify the default supply provider (DSP) fee as a separate cost category.<sup>111</sup>

120. AUI's 2013-2017 PBR Phase II application requests the Commission's approval for the use of a 2012 COSS, including the use of the allocation concepts and principles as the basis for PBR rates to be in effect for the balance of the PBR term,<sup>112</sup> effective from January 1, 2014.

121. In the present application, AUI based its proposed 2014 PBR rates on the 2012 COSS included in its 2013-2017 PBR Phase II application. When a tentative settlement was reached on the Phase II application, AUI provided revised 2014 PBR annual rate adjustment filing schedules in this proceeding to reflect changes arising from the proposed settlement.<sup>113</sup>

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<sup>108</sup> Exhibit 3, application, Appendix C.

<sup>109</sup> Application No. 1609722, Proceeding ID No. 2687.

<sup>110</sup> Proceeding ID No. 2687, Exhibit 1, application, paragraphs 102 to 103.

<sup>111</sup> Exhibit 21.02, response to UCA-AUI-1(a).

<sup>112</sup> AUI 2013-2017 PBR Phase II, Application No. 1609722, Proceeding ID No. 2687.

<sup>113</sup> Exhibit 29.

122. AUI recognized that the 2012 COSS and negotiated settlement remains subject to the Commission's review in Proceeding ID No. 2687. However, AUI submitted that its proposed 2014 PBR interim rates, based upon the Phase II settlement and filed November 4, 2013 in Exhibit 29, appropriately reflect the most current cost causation information (i.e., the 2012 COSS) and provide a reasonable balance of rate design principles. Further, incorporation of the 2012 COSS into 2014 rates, effective January 1, 2014, should minimize potential rate adjustments and impacts going forward.<sup>114</sup>

123. No party opposed AUI's proposal to develop its 2014 PBR rates based on the 2012 COSS. The CCA and UCA supported its inclusion.<sup>115</sup> The CCA stated:

The CCA was a party to the 2013-2017 Phase 2 GRA [ID. 2687] negotiations noted in the foregoing paragraph and does not object to AUI's proposal to calculate the 2014 rates<sup>4</sup> reflecting the outcome of the 2013-2017 Phase 2 NSA [negotiated settlement agreement], subject of course, to the AUC's approval of the yet to be filed 2013-2017 Phase 2 NSA.<sup>116</sup>

<sup>4</sup> Including the proposal to recognize the DSP Administration Fee as being made up of a fixed and variable component, as described in AUI's Argument, Para 4.

124. The UCA submitted:

... it would be reasonable and efficient from a regulatory process perspective to develop 2014 Interim PBR rates for AUI based on Phase 2 principles that reasonably reflect the likely outcome of the Phase 2 Application, including the principles that are reflected in the attachments to AUI's November 4, 2013 letter. That interim determination would of course be subject to the Commission's final determination of the Phase 2 Application.<sup>117</sup>

### Commission findings

125. In Decision 2012-237, the Commission noted that a company may file an application for Phase II rate adjustments during the 2013-2017 PBR term:

996. The Commission considers that PBR is unrelated to the requirement to periodically update rates through a Phase II process. However, during the PBR term the companies may file applications for Phase II adjustments to their rate design and cost allocation methodologies and the Commission will make a determination at that time as to whether the adjustments are warranted. For purposes of a cost of service study, the companies shall use the revenue requirement resulting from going-in rates adjusted by the PBR formula (including the I-X mechanism, K factors, Y factors and Z factors) and the latest updated billing determinants.<sup>118</sup>

126. In Decision 2013-072, at paragraph 100, the Commission recognized that AUI intends to undertake a fully allocated cost of service study to be used during the PBR term:

<sup>114</sup> Exhibit 32.01, AUI argument, paragraph 3.

<sup>115</sup> The CCA and the UCA are the signatories to the proposed settlement currently before the Commission in proceeding ID No. 2687.

<sup>116</sup> Exhibit 37.01, paragraph 7.

<sup>117</sup> Exhibit 31.02, UCA argument, paragraph 6.

<sup>118</sup> Decision 2012-237, paragraph 996.

100. The Commission recognizes that AltaGas intends to complete a fully allocated cost of service study for 2012 as part of its next Phase II application in the first half of 2013. The Phase II methodologies resulting from the 2012 cost of service study will be used during the PBR term. Following the approval of this study, the Commission will consider whether any adjustments to AltaGas' PBR rates are required. [footnote omitted]

127. Parties to the 2013-2017 Phase II proceeding reached an agreement in principle, referred to in AUI's letter of November 4, 2013<sup>119</sup> and in AUI argument,<sup>120</sup> on changes to rate design and filed a negotiated settlement agreement for the Commission's review in Proceeding ID No. 2687.<sup>121</sup> The CCA and the UCA (which were also parties to the negotiated settlement agreement), did not object the AUI's proposal to develop its 2014 PBR rates based on the 2012 COSS.

128. The Commission agrees with the view of AUI that basing its 2014 PBR rates on the 2012 COSS reflects the most current cost causation information and optimally balances rate design principles. Further, as AUI pointed out, incorporating the 2012 COSS into 2014 PBR interim rates, effective January 1, 2014, could potentially minimize rate adjustments in the future.<sup>122</sup> For these reasons, the Commission finds AUI's proposal to incorporate the 2012 COSS in developing its 2014 PBR interim rates to be reasonable. In reaching this conclusion, the Commission has not considered the AUI application, evaluated the 2012 COSS, the negotiated settlement, proposed rate design changes, or the submissions of parties filed in Proceeding ID No. 2687 and makes no finding in respect thereof. AUI 2014 PBR interim rates approved by this decision are subject to, and will be adjusted in accordance with, the findings and direction of the Commission in Proceeding ID No. 2687.

## 8.2 Default supply provider administration fee

129. AUI's DSP administration fee recovers costs applicable to the default supply function of AUI's operations and applies only to those customers that have elected to receive default gas supply service from AUI under rates 1, 2, 3 and 4. AUI bases its DSP administration fee on customer costs which would be avoided in the long run if all default supply service customers switched to retail service.

130. AUI's 2012 COSS includes a change in the treatment of the DSP administration fee. AUI proposed that the calculation of the DSP administration fee should recognize the fixed nature of a substantial portion of the costs involved in the provision of DSP service to a declining number of DSP customers. To do this, AUI considered it should be recognizing DSP costs rather than DSP revenue per customer in calculating the DSP administration fee in a PBR year. AUI's proposed calculation adjusts the variable portion of the costs annually by the I-X index and includes changes in the number of customers. The fixed portion of the DSP costs is adjusted annually by the I-X index only, based on the rationale that the fixed portion of the DSP costs are unlikely to vary with the changes in default customer numbers expected during the PBR term. AUI anticipates overall DSP costs and the consideration of fixed and variable allocations will be reviewed periodically, most likely in Phase II proceedings.<sup>123</sup>

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<sup>119</sup> Exhibit 29.01.

<sup>120</sup> Exhibit 32.01, paragraphs 3, 13.

<sup>121</sup> Proceeding ID No. 2687, Exhibit 44.01, negotiated settlement agreement.

<sup>122</sup> Exhibit 32.01, AUI argument, paragraph 3.

<sup>123</sup> Exhibit 13.02, application, paragraphs 10 and 113; Exhibit 32.01, AUI argument, paragraph 11.

## Commission findings

131. The justification and rationale for the proposed change in the calculation of the DSP administration fee are being addressed as part of the rate design issues in the ongoing 2013-2017 PBR Phase II NSA currently before the Commission in Proceeding ID No. 2687. In Section 8.1 of this decision, the Commission agreed with AUI's proposal to incorporate the 2012 COSS from that Phase II proceeding in developing its 2014 PBR interim rates. Accordingly, the Commission approves, on an interim basis, the treatment of the DSP administration fee, as proposed by AUI in the application.

132. The Commission makes no finding in respect of the proposed changes to the DSP administration fee in this decision. Any differences in the DSP administration fee treatment between what AUI has included in its 2014 PBR interim rates and what is ultimately approved in the 2013-2017 PBR Phase II proceeding will be reconciled by AUI when establishing its 2014 final PBR rates.

### 8.3 AUI 2014 PBR interim rates

133. In Decision 2012-237, at paragraph 964, the Commission outlined the PBR annual rate adjustment calculation for gas distribution companies' distribution rates. In an attachment to the application, AUI provided schedules with the rate calculations.<sup>124</sup> AUI provided revised rate schedules for Y factor updates<sup>125</sup> to reflect rate design changes associated with the tentative settlement that AUI reached on its Phase II application<sup>126</sup> and to reflect a 60 per cent K factor placeholder.<sup>127</sup>

134. AUI provided the following table, which is a schedule of sample bill calculations and comparisons showing the impact the proposed 2014 PBR rates will have on the distribution charges portion of typical customer bills for each rate class:

**Table 5. Bill impact of AUI's proposed 2014 PBR interim rates<sup>128</sup>**

	Rates 1/11	Rates 1/11	Rates 1/11	Rates 2/12	Rates 3/13	Rates 4/14
	Residential	Commercial	Rural	Large General Service	Demand / Commodity	Irrigation
Total revenue						
Existing rates	619.92	1789.8	747	16437.35	44168.93	1076.09
Proposed 2014 rates	653.2	1829.47	780.97	15835.76	41017.77	940.28
Annual increase (\$)	33.28	39.67	33.97	(601.59)	(3,151.16)	(135.81)
Annual increase (%)	5.37	2.22	4.55	-3.66	-7.13	-12.62

135. The UCA asked AUI to confirm and demonstrate that the way AUI calculated the rates in the application is mathematically equivalent to the way the AUC directed AUI to do it in paragraph 964 of Decision 2012-237 and paragraph 88 of Decision 2013-072. AUI confirmed that its proposed rates are based on class-specific revenue requirements and updated billing determinants (as determined in Decision 2012-237 and 2013-072), and its approach to rate

<sup>124</sup> Exhibit 5, AUI's 2014 rate calculations.

<sup>125</sup> Exhibit 23.03, response to AUC-AUI-1.

<sup>126</sup> Exhibit 29.02, AUI letter.

<sup>127</sup> Exhibit 39.02, final Excel schedules filed by AUI.

<sup>128</sup> Exhibit 39.02, Schedule 5.0.



changes is consistent with the Commission's directions, with the same percentage change in rates applied to each component of any given rate. AUI said that although it may be possible to calculate rate changes resulting from consumption per customer changes and apply such changes only to the commodity component of rates, such an approach does not have any basis in cost causation and AUI does not support such an approach for the following reasons:

- The majority of a distribution utility's costs are fixed costs and changes in average consumption per customer do not influence how the fixed costs are caused.
- Increasing the commodity component of rates by a higher percentage than the fixed charge component results in intra class cross subsidies between large and small customers, since only a portion of customer related costs are recovered through fixed charges.
- Changing the relationship between the commodity and fixed charge would have an impact on the cross over points between rate classes and may cause customers to migrate from one rate class to another. Customer migrations from one rate class to another can result in unintended gains or losses in revenues under a PBR regime.<sup>129</sup>

### Commission findings

136. The Commission has reviewed AUI's distribution rate calculations provided in the most recent rate schedule update<sup>130</sup> and the explanation provided in response to UCA-AUI-1<sup>131</sup> and is satisfied that AUI has calculated the rates in a manner consistent with Commission directions in Decision 2012-237 and Decision 2013-270. The Commission has reviewed the bill impacts for each rate class on a distribution charges portion of the bill and observes that the rate changes for all rate classes are reasonable and do not cause rate shock.

137. The Commission has reviewed AUI's 2014 annual PBR rate adjustment filing and finds that the proposed January 1, 2014 interim rates are calculated in accordance with the provisions of the company's PBR plan as approved by the Commission. AUI's 2014 PBR rates include a K factor placeholder (reflecting aggregated 2013 and 2014 K factor placeholder amounts) and a placeholder with respect to any adjustment to the company's capital structure as contemplated by paragraph 710 of Decision 2012-237, among others. In addition, the interim rates are subject to adjustment pending on the Commission's findings and direction in respect of AUI's 2013-2017 PBR Phase II application, Proceeding ID. No. 2687, including the use of the 2012 COSS and rate design changes proposed therein.

138. Accordingly, the Commission approves AUI's 2014 PBR distribution rates and special charges schedule, as set out in [Appendix 5](#) and [Appendix 6](#) of this decision, on an interim basis, until all remaining placeholders have been determined and the Commission issues its decision in AUI's 2013-2017 PBR Phase II application, Proceeding ID. No. 2687. When these placeholders and other matters are resolved, the 2014 rates will be finalized and any required true-up adjustments will be made in accordance with directions provided by the Commission.

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<sup>129</sup> Exhibit 21.02, response to UCA-AUI-1(g.) and (h).

<sup>130</sup> Exhibit 39.02.

<sup>131</sup> Exhibit 21.02, UCA-AUI-1.

**9 Order**

139. It is hereby ordered that:

- (1) Appendixes 5 and 6 are approved on an interim basis as the distribution rates schedule and special charges schedule, respectively, for AltaGas Utilities Inc., effective January 1, 2014. These rates and charges shall remain interim until otherwise directed by the Commission.

Dated on December 23, 2013.

**The Alberta Utilities Commission**

*(original signed by)*

Mark Kolesar  
Vice-Chair

*(original signed by)*

Bill Lyttle  
Commission Member

*(original signed by)*

Neil Jamieson  
Commission Member

## Appendix 1 – Proceeding participants

<b>Name of organization (abbreviation) counsel or representative</b>
AltaGas Utilities Inc. (AUI) Regulatory Affairs
ATCO Electric Ltd. B. Yee L. Kerckhof
ATCO Gas (AG) A. Green
Consumers' Coalition of Alberta (CCA) J. A. Wachowich A. P. Merani
FortisAlberta Inc. (Fortis) J. Croteau
Office of the Utilities Consumer Advocate (UCA) R. McCreary K. Arrowsmith B. Shymanski

The Alberta Utilities Commission
Commission Panel M. Kolesar, Vice-Chair B. Lyttle, Commission Member N. Jamieson, Commission Member
Commission Staff B. McNulty (Commission counsel) R. Finn (Commission counsel) P. Howard O. Vasetsky N. Mahbub

## 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 finds that the series from Table 281-0026 discussed by the UCA in its information request should not be used for the purpose of the I factor calculation. The Commission directs that the Alberta AWE series from Statistics Canada Table 281-0063, data vector v79311387, be used as the labour cost component of the I factor in future PBR annual rate adjustment filings..... Paragraph 39
2. With respect to AUI’s use of WACC for calculating carrying charges on its Y factor amounts, the Commission observes that this method was adopted by AUI in its 2010-2012 general rate application and approved by the Commission in Decision 2012-091, and most recently in Decision 2013-072. Accordingly, for the purposes of this decision, the Commission approves AUI’s calculation of carrying charges on its Y factor amounts. The Commission directs AUI, in its next PBR annual rate adjustment filing, to discuss whether carrying charges should continue to be calculated based on the company’s WACC rather than using the method set out in AUC Rule 023. .... Paragraph 84
3. The Commission will review the continuing need for all the riders set out in Appendix 4 at the time of the September 10, 2014 company filings. Accordingly, AUI is directed, in its September 10, 2014 filing, to address the continuing need for each of these riders. .... Paragraph 115

### Appendix 3 – Inflation indexes used in the 2014 I factor calculation

[\(return to text\)](#)

Date	Alberta CPI CANSIM 326-0020	Alberta AWE CANSIM 281-0028	Average July to June		Year over year % change		2014
	v41692327	v1597350	AB CPI	AB AWE	AB CPI	AB AWE	I factor
	(2002=100)	\$	(2002=100)	\$	%	%	%
July 2011	125.70	1031.91					
August 2011	126.30	1050.93					
September 2011	126.00	1043.75					
October 2011	127.20	1052.82					
November 2011	126.60	1049.93					
December 2011	126.50	1049.78					
January 2012	127.10	1056.05					
February 2012	126.60	1054.80					
March 2012	126.60	1054.38					
April 2012	127.00	1058.84					
May 2012	126.60	1055.07					
June 2012	126.90	1070.68	126.59	1052.41			
July 2012	126.80	1080.64					
August 2012	127.60	1102.37					
September 2012	127.80	1086.56					
October 2012	128.00	1090.61					
November 2012	127.30	1091.24					
December 2012	126.50	1095.14					
January 2013	126.50	1083.82					
February 2013	127.70	1099.51					
March 2013	128.10	1098.08					
April 2013	128.70	1099.83					
May 2013	129.50	1119.34					
June 2013	129.80	1109.80	127.86	1096.41	1.00	4.18	2.75

Source: Exhibit 5, AUI application, Schedule 9.

## Appendix 4 – Riders approved for 2014

([return to text](#))

Rider	Description
Rider A franchise fees	Franchise fees are paid to municipalities in consideration of the exclusive grant of a franchise and for the ability to put gas distribution facilities on land owned by the municipalities.
Rider B property tax	Property taxes are levied by municipalities against AUI's land and buildings, linear property, machinery and equipment.
Rider C deemed cost of gas	Rider C is a deemed calculation used where municipalities calculate the franchise fee on both natural gas charges and delivery charges for customers being served by a competitive retailer. Rider C is necessary to ensure the franchise fee is charged in a fair way, whether a customer buys competitive gas supply or default gas supply.
Rider D gas cost recovery	The gas cost recovery rate is the cost per gigajoule, approved by the AUC on a monthly basis, for the cost of natural gas provided to default supply customers plus any procurement costs, management fees, bad debt, penalty revenue or carrying costs of cash working capital related to providing natural gas to its customers.
Rider E unaccounted for gas	Rider E is used in calculating Rider D, Rider G and in determining the amount of gas to be delivered to AUI by retailers. Rider E is designed to allow AUI to recover from Producer Transportation customers its share of annual line losses and is approved on an annual basis by the AUC.
Rider F deficiency or refund rider	Rider F is used to recover a deficiency or refund a surplus resulting from the difference between interim and final rates.
Rider G third party transportation	Rider G is the cost per gigajoule, approved by the AUC on a monthly basis, for third party transportation costs incurred by AUI for transporting gas to customers on a third party's pipeline (e.g. TCPL, ATCO Pipelines, municipal systems).
Rider H	Rider H is used to facilitate gas settlement and balancing calculations and ensure the associated terms and conditions of service are consistent with AUC Rule 028. This rider is necessary to calculate the retailers' and the default gas supply providers' share of UFG required under AUC Rule 028.
Rider L	Rider L is used 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.

## Appendix 5 – 2014 interim distribution rate schedules

[\(return to text\)](#)



Appendix 5 - 2014  
interim distribution ral

(consists of 25 pages)

## Appendix 6 – 2014 interim special charges schedules

[\(return to text\)](#)



Appendix 6 - 2014  
interim special charge

(consists of 4 pages)



<b>RATE NO. 1</b>	<b>SMALL GENERAL SERVICE</b>
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**Description:**

Available to all customers except those customers who do not purchase their total natural gas requirements from the Company or who utilize the Company's facilities only for standby, peaking, emergency or irrigation services.

**Charges:**

Fixed Charge:

Base .....	\$ 1.114/Day
Default Supply Provider Administration Fee.....	\$ 0.084/Day

Variable Energy Charge:

Base .....	\$ 1.843/GJ
Gas Cost Recovery.....	Rate Rider "D"
Third Party Transportation .....	Rate Rider "G"

The minimum daily charge will be the Fixed Charge.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 SGS
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<b>RATE NO. 2</b>	<b>LARGE GENERAL SERVICE (OPTIONAL)</b>
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**Description:**

Available to all customers except those customers who do not purchase their total natural gas requirements from the Company or who utilize the Company's facilities only for standby, peaking or emergency services.

**Charges:**

Fixed Charge:

Base .....	\$ 13.021/Day
Default Supply Provider Administration Fee .....	\$ 0.084/Day

Variable Energy Charge:

Base .....	\$ 1.027/GJ
Gas Cost Recovery.....	Rate Rider "D"
Third Party Transportation .....	Rate Rider "G"

The minimum daily charge will be the Fixed Charge.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 LGS
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<b>RATE NO. 3</b>	<b>DEMAND GENERAL SERVICE (OPTIONAL)</b>
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**Description:**

Available to all customers except those customers who do not purchase their total natural gas requirements from the Company or who utilize the Company's facilities only for standby, peaking or emergency services.

**Charges:**

Demand Charge ..... \$ 0.262/Day/GJ  
of Billing Demand

Fixed Charge:

Base ..... \$ 14.450/Day  
Default Supply Provider Administration Fee..... \$ 0.084/Day

Variable Energy Charge:

Base ..... \$ 0.031/GJ  
Gas Cost Recovery..... Rate Rider "D"  
Third Party Transportation ..... Rate Rider "G"

The minimum daily charge will be the Demand Charge and Fixed Charge.

**Determination of Billing Demand:**

The Billing Demand shall be the greater of:

1. 100 GJ, or
2. The Contract Demand, or
3. The greatest amount of gas (GJ) delivered in any consecutive 24-hour period during the current and preceding eleven billing periods provided that the greatest amount of gas delivered in any 24 consecutive hours in the summer period (April 1 to October 31, inclusive) shall be divided by 2.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 DCGS
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<b>RATE NO. 4</b>	<b>IRRIGATION PUMPING SERVICE (OPTIONAL)</b>
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**Description:**

Available only to customers for the use of natural gas as a fuel for engines pumping irrigation water from **April 1 to October 31**, inclusive.

**Charges:**

	<u>April 1 to October 31</u>
<b>Fixed Charge:</b>	
Base .....	\$ 3.258/Day
Default Supply Provider Administration Fee.....	\$ 0.084/Day
<b>Variable Energy Charge:</b>	
Base .....	\$ 1.055/GJ
Gas Cost Recovery.....	Rate Rider "D"
Third Party Transportation .....	Rate Rider "G"

The minimum daily charge will be the Fixed Charge.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 IPS
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<b>RATE NO. 6</b>	<b>STANDBY, PEAKING, AND EMERGENCY SERVICE</b>
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**Description:**

Available only at the option of the Company.

**Charges:**

Demand Charge ..... \$ 0.262/Day/GJ  
 of Billing Demand

Fixed Charge:

Base ..... \$ 14.450/Day  
 Default Supply Provider Administration Fee..... \$ 0.084/Day

Variable Energy Charge ..... 1.3 times the Variable Base Charge of Rate No. 3  
 plus the greater of:  
 (a) 1.3 times the GCRR; or  
 (b) 1.3 times the actual cost of gas purchased

The minimum daily charge will be the Demand Charge and Fixed Charge.

**Determination of Billing Demand:**

The Billing Demand shall be the greater of:

1. 100 GJ, or
2. The Contract Demand, or
3. The greatest amount of gas (GJ) delivered in any consecutive 24-hour period during the current and preceding eleven billing periods provided that the greatest amount of gas delivered in any 24 consecutive hours in the summer period (April 1 to October 31, inclusive) shall be divided by 2.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 SPES
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<b>RATE NO. 10a</b>	<b>PRODUCER TRANSPORTATION SERVICE 'CLOSED RATE'</b>
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**Description:**

Transportation service is available to the Rate 10a customer subject to the terms and conditions specified in the contract.

**Charges:**

	<u>1 Year</u>	<u>Term 2 Years</u>	<u>3 Years</u>
Fixed Charge per Month .....	\$ 250.00	\$ 250.00	\$ 250.00
Demand Charge per GJ of Billing Demand per Month.....	\$ 1.418	\$ 1.333	\$ 1.248
Energy Charge per GJ.....	\$ 0.019	\$ 0.019	\$ 0.019

- a) The minimum monthly charge will be the fixed plus demand charge.
- b) The Company and customer shall determine receipt and delivery locations for transportation service by consultation and agreement.
- c) Service under Rate 10a is subject to available system capacity.
- d) The Company reserves the right to restrict the amount of gas received and delivered up to the Contract Demand.
- e) Billing demand will be the higher of: contracted demand, the greatest amount of gas (GJ) transported in any consecutive 24-hour period, during the current or the previous 11 months.
- f) The rates do not include costs payable by the Customer for specific facilities at the point(s) of receipt or delivery provided by the Company for the Customer.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 PTS10a
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<b>RATE NO. 10b</b>	<b>PRODUCER TRANSPORTATION SERVICE 'CLOSED RATE'</b>
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**Description:**

Transportation service is available to the Rate 10b customer subject to the terms and conditions specified in the contract.

**Charges:**

Variable Energy Charge ..... \$ 0.085/GJ

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 PTS10b
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<b>RATE NO. 10c</b>	<b>PRODUCER TRANSPORTATION SERVICE 'CLOSED RATE'</b>
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**Description:**

Transportation service is available to the Rate 10c customer subject to the terms and conditions specified in the contract.

**Charges:**

Demand Charge .....	\$ 0.020/Day/GJ of Billing Demand
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EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 PTS10c
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<b>RATE NO. 11</b>	<b>SMALL GENERAL SERVICE FOR RETAILER</b>
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**Description:**

Distribution service is available to retailers under contract for the delivery of retail supply.

**Charges:**

Fixed Charge:

Base ..... \$ 1.114/Day

Variable Energy Charge:

Base ..... \$ 1.843/GJ  
 Third Party Transportation ..... Rate Rider "G"

The minimum daily charge will be the Fixed Charge.  
 This service is not available for standby, peaking or emergency services.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 SGS-R
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<b>RATE NO. 12</b>	<b>LARGE GENERAL SERVICE (OPTIONAL) FOR RETAILER</b>
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**Description:**

Distribution service is available to retailers under contract for the delivery of retail supply.

**Charges:**

Fixed Charge:

Base ..... \$ 13.021/Day

Variable Energy Charge:

Base ..... \$ 1.027/GJ  
 Third Party Transportation ..... Rate Rider "G"

The minimum daily charge will be the Fixed Charge.  
 This service is not available for standby, peaking or emergency services.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 LGS-R
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<b>RATE NO. 13</b>	<b>DEMAND GENERAL SERVICE (OPTIONAL) FOR RETAILER</b>
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**Description:**

Distribution service is available to retailers under contract for the delivery of retail supply.

**Charges:**

Demand Charge ..... \$ 0.262/Day/GJ  
of Billing Demand

Fixed Charge:

Base ..... \$ 14.450/Day

Variable Energy Charge:

Base ..... \$ 0.031/GJ  
 Third Party Transportation ..... Rate Rider "G"

The minimum daily charge will be the Demand Charge and Fixed Charge.

**Determination of Billing Demand:**

The Billing Demand shall be the greater of:

1. 100 GJ, or
2. The Contract Demand, or
3. The greatest amount of gas (GJ) delivered in any consecutive 24-hour period during the current and preceding eleven billing periods provided that the greatest amount of gas delivered in any 24 consecutive hours in the summer period (April 1 to October 31, inclusive) shall be divided by 2.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 DCGS-R
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<b>RATE NO. 14</b>	<b>IRRIGATION PUMPING SERVICE (OPTIONAL) FOR RETAILER</b>
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**Description:**

Distribution service is available to retailers under contract for the delivery of retail supply. Available to retailers only for the use of natural gas as a fuel for engines pumping irrigation water from **April 1 to October 31**, inclusive.

**Charges:**

	<u>April 1 to October 31</u>
Fixed Charge:	
Base .....	\$ 3.258/Day
Variable Energy Charge:	
Base .....	\$ 1.055/GJ
Third Party Transportation .....	Rate Rider "G"

The minimum daily charge will be the Fixed Charge.  
 This service is not available for standby, peaking or emergency services.

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 IPS-R
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<b>SPECIAL CONTRACT RATE NO. 30</b>	<b>TRANSPORTATION SERVICE 'CLOSED RATE'</b>
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**Description:**

Transportation service is available to the Rate No. 30 customer for the term and conditions specified in the contract.

**Charges:**

Fixed Charge .....	\$ 250.00/Month
Energy Charge.....	\$ 0.230/GJ

EFFECTIVE DATE: January 1, 2014	REPLACING RATE EFFECTIVE: April 1, 2013 Decision 2013-112	Page 1 of 1 TS-RT30
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<b>RATE RIDER "A"</b>	<b>FRANCHISE TAX RIDERS</b>
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### Municipalities

Additions to be made to the rates of customers resident in municipalities that have agreed to accept a percentage of gross revenue of the special franchise tax in lieu of a property tax pursuant to Section 360 of the *Municipal Government Act, 1994, c. M-26.1* (previously Section 14(7) and 14(8) of the *Municipal Taxation Act*).

The percentage shown is to be applied as an addition to the total billings calculated.

<u>Municipality</u>	<u>District</u>	<u>Type</u>	<u>Rate (%)</u>	<u>Decision/Order</u>	<u>Effective Date<sup>1</sup></u> <u>(yyyy-mm-dd)</u>
Athabasca	Athabasca	Town	6.00	U2009-75	2009-05-19
Hairy Hill	Two Hills	Village	5.00	E95078	1999-01-01
Radway	Westlock	Village	3.00	E90046	1998-03-01

<sup>1</sup> Any bill rendered after this date is subject to the corresponding rate.

		Page 1 of 3 RIDER "A"
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<b>RATE RIDER "A"</b>	<b>FRANCHISE TAX RIDERS</b>
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### Métis Settlements

Additions to be made to the rates of customers resident in Métis Settlements that have by bylaw approved Utility Services Agreements providing for the payment of annual utility service fees calculated as a percentage of gross revenues.<sup>1</sup> The percentage shown is to be applied as an addition to the total billings calculated.

<u>Métis Settlement</u>	<u>District</u>	<u>Rate (%)</u>	<u>Decision/Order</u>	<u>Effective Date<sup>2</sup> (yyyy-mm-dd)</u>
Buffalo Lake	St. Paul	7.00	U2000-236	2000-07-15
Fishing Lake	St. Paul	5.00	U97153	1998-03-01
Gift Lake	Wabasca	7.00	U2003-378	2003-10-01
Kikino	St. Paul	7.00	U2000-107	2000-05-01

<sup>1</sup> The *Métis Settlements Act* (S.A. 1998 Chapter M-14.3) enables the Métis Settlements General Council to legislate by Policy and Settlement Councils to legislate by bylaw on matters related to the operations of utilities within the settlement areas, including the granting of interests in land, the assessment and taxation of these interests, and the licensing of related activities. [s.222(1); Sch.1, ss.14, 19]. Under Métis Settlements General *Council Public Utilities Policy* (GC-P9804; Alberta Gazette, Nov.30, 1998, p.2221) a Settlement may enter into Utility Service Agreement allowing a utility to use land and provide utility services in the Settlement Area and providing for the utility to pay an all inclusive annual service fee. The fee may be determined as a percentage of gross revenue received from services provided in the Settlement Area. Each of the listed Settlements has entered into a Utility Service Agreement with AltaGas Utilities. Under the *Public Utility Policy* [s.2.3(3)] the Service Agreement takes effect on being approved by bylaw and by the Alberta Energy and Utilities Board.

<sup>2</sup> Any bill rendered after this date is subject to the corresponding rate.

<b>RATE RIDER "A"</b>	<b>FRANCHISE TAX RIDERS</b>
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### Municipalities Governed by Standardized Franchise Agreement

For each calendar year the franchise fee will be calculated as a percentage of the Company's actual total revenue derived from the Gas Distribution Tariff, including without limitation the fixed charge, base energy charge, demand charge but excluding the cost of gas (being the calculated revenues from the gas cost recovery rate rider or the deemed cost of gas) in that year for Gas Distribution Service within the Municipal Area.

<u>Municipality</u>	<u>Type</u>	<u>District</u>	<u>Rate (%)</u>	<u>Decision / Order</u>	<u>Effective Date<sup>4</sup> (yyyy-mm-dd)</u>
Barrhead	Town	BMW <sup>1</sup>	8.00	2009-20	2009-04-02
Beaumont	Town	Leduc	21.20	2005-287	2005-08-13
Bonnyville	Town	Bonnyville	20.00	2003-68	2003-10-16
Bonnyville Beach	Summer Village	Bonnyville	0.00	2005-321	2005-09-26
Botha	Village	Stettler	10.00	2004-260	2004-09-29
Calmar	Town	Leduc	20.00	2004-240	2011-01-01
Crystal Springs	Summer Village	Leduc	0.00	2005-117	2005-03-09
Delia	Village	Hanna	11.00	2007-363	2011-01-01
Donalda	Village	Stettler	13.50	2009-157	2009-11-04
Drumheller	Town	Drumheller	27.00	2004-440	2004-12-17
Elk Point	Town	St. Paul	16.00	2010-158	2010-06-15
Glendon	Village	St. Paul	4.62	2004-264	2004-09-16
Grande Cache	Town	Grande Cache	25.00	2011-113	2011-07-01
Grandview	Summer Village	Leduc	0.00	2010-178	2010-07-08
Hanna	Town	Hanna	9.85	2007-133	2007-06-08
High Level	Town	High Level	30.00	2004-273	2011-01-01
Island Lake	Summer Village	Athabasca	0.00	2005-85	2005-03-24
Leduc <sup>2</sup>	City	Leduc	27.00	2005-276	2005-07-09
Leduc <sup>3</sup>	City	Leduc	35.00	2005-276	2005-07-09
Ma-Me-O Beach	Summer Village	Leduc	0.00	2009-67	2009-03-21
Mewatha Beach	Summer Village	Athabasca	6.00	2005-207	2005-07-12
Morinville	Town	BMW	19.00	2005-142	2005-04-28
Morrin	Village	Drumheller	12.00	2010-378	2011-02-01
Munson	Village	Drumheller	11.00	2004-291	2004-12-01
Pelican Narrows	Summer Village	Bonnyville	0.00	2006-162	2006-06-20
Pincher Creek	Town	Pincher Creek	20.00	2004-293	2004-09-16
Poplar Bay	Summer Village	Leduc	0.00	2010-199	2010-08-19
Rochon Sands	Summer Village	Stettler	0.00	2007-212	2007-08-14
St. Paul	Town	St. Paul	22.00	2004-289	2004-11-10
Stettler	Town	Stettler	18.00	2004-247	2004-08-27
Sunset Beach	Summer Village	Athabasca	3.00	2008-247	2008-09-24
Three Hills	Town	Three Hills	9.00	2010-382	2010-11-01
Two Hills	Town	Two Hills	15.00	2005-135	2009-01-07
Waskatenau	Village	BMW	8.00	2004-421	2004-12-22
Westlock	Town	BMW	18.00	2004-232	2009-01-07
White Sands	Summer Village	Stettler	0.00	2008-130	2008-05-29
Willingdon	Village	Two Hills	6.00	2005-005	2005-01-26

<sup>1</sup> BMW denotes Barrhead, Morinville and Westlock.

<sup>2</sup> Does not apply to service under Rates 3 or 13.

<sup>3</sup> Applies only to service under Rates 3 and 13.

<sup>4</sup> Any bill rendered after this date is subject to the corresponding rate.

		Page 3 of 3 RIDER "A"
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<b>RATE RIDER "B"</b>	<b>DISTRICT &amp; MUNICIPAL PROPERTY TAX RIDERS</b>
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Additions to be made to the rates of customers resident in municipalities that receive a property tax assessed pursuant to Section 353 of the *Municipal Government Act, R.S.A. 2000 c.M-26*. The addition is an estimated percentage of distribution revenues required to provide for the tax payable each year. To the extent that this percentage may be more or less than that required to pay the tax, the percentage of distribution revenue in the rider will be adjusted on an annual basis. The percentages are filed with the Alberta Utilities Commission.

Rate Rider "B" is to be applied as an addition to the total billings calculated for the following areas:

#### District Property Tax Riders

<u>District</u>	<u>Rate (%)</u>	<u>Effective Date</u> <sup>1</sup>
Athabasca	4.8026	January 1, 2013
Barrhead, Morinville, Westlock	2.6880	January 1, 2013
Bonnyville	2.0018	January 1, 2013
Drumheller	0.3488	January 1, 2013
Grande Cache	n/a	January 1, 2013
Hanna	1.7216	January 1, 2013
High Level	2.8218	January 1, 2013
Leduc	1.2671	January 1, 2013
Pincher Creek	1.4315	January 1, 2013
St. Paul	2.9565	January 1, 2013
Southeast	1.8324	January 1, 2013
Stettler	1.4588	January 1, 2013
Three Hills	1.4577	January 1, 2013
Two Hills	3.9614	January 1, 2013

		Page 1 of 2 RIDER "B"
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<b>RATE RIDER "B"</b>	<b>DISTRICT &amp; MUNICIPAL PROPERTY TAX RIDERS</b>
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**Municipality-Specific Property Tax Riders**  
(Incremental to applicable District Property Tax Rider)

<u>Municipality</u>	<u>Type</u>	<u>District</u>	<u>Rate (%)</u>	<u>Effective Date</u> <sup>1</sup>
Barrhead	Town	BMW <sup>2</sup>	3.5903	January 1, 2013
Beaumont	Town	Leduc	2.0657	January 1, 2013
Bonnyville Beach	Summer Village	Bonnyville	1.3075	January 1, 2013
Bonnyville	Town	Bonnyville	2.6089	January 1, 2013
Botha	Village	Stettler	2.5620	January 1, 2013
Calmar	Town	Leduc	4.2338	January 1, 2013
Crystal Springs	Summer Village	Leduc	1.1464	January 1, 2013
Delia	Village	Hanna	7.3406	January 1, 2013
Donalda	Village	Stettler	4.1688	January 1, 2013
Drumheller	Town	Drumheller	3.6596	January 1, 2013
Elk Point	Town	St. Paul	4.1858	January 1, 2013
Glendon	Village	St. Paul	4.3170	January 1, 2013
Grande Cache	Town of	Grande Cache	2.2635	January 1, 2013
Grandview	Summer Village	Leduc	0.7243	January 1, 2013
Hanna	Town	Hanna	3.4135	January 1, 2013
High Level	Town	High Level	2.3355	January 1, 2013
Island Lake	Summer Village	Athabasca	1.9355	January 1, 2013
Leduc	City	Leduc	2.6583	January 1, 2013
Ma-Me-O Beach	Summer Village	Leduc	1.1863	January 1, 2013
Mewatha Beach	Summer Village	Athabasca	0.0000	January 1, 2013
Morinville	Town	BMW	1.9601	January 1, 2013
Morrin	Village	Drumheller	2.9779	January 1, 2013
Munson	Village	Drumheller	3.1323	January 1, 2013
Pelican Narrows	Summer Village	Bonnyville	1.6125	January 1, 2013
Pincher Creek	Town	Pincher Creek	3.3087	January 1, 2013
Poplar Bay	Summer Village	Leduc	1.3420	January 1, 2013
Rochon Sands	Summer Village	Stettler	0.8766	January 1, 2013
St. Paul	Town	St. Paul	3.6733	January 1, 2013
Stettler	Town	Stettler	3.2002	January 1, 2013
Sunset Beach	Summer Village	Athabasca	1.4749	January 1, 2013
Three Hills	Town	Three Hills	2.9758	January 1, 2013
Two Hills	Town	Two Hills	4.5263	January 1, 2013
Waskatenau	Village	BMW	3.4552	January 1, 2013
Westlock	Town	BMW	4.6087	January 1, 2013
White Sands	Summer Village	Stettler	3.0041	January 1, 2013
Willingdon	Village	Two Hills	12.4812	January 1, 2013
Zama Lake	Town	High Level	33.9790	January 1, 2013

<sup>1</sup> Any bill rendered on or after this date is subject to the corresponding rate.

<sup>2</sup> BMW denotes Barrhead, Morinville and Westlock.

		Page 2 of 2 RIDER "B"
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<b>RATE RIDER "C"</b>	<b>DEEMED COST OF GAS RIDER</b>
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**TO ALL RETAILER DISTRIBUTION SERVICE RATES IN THE DETERMINATION OF THE DEEMED COST OF GAS FOR CALCULATING RATE RIDER "A"**

To be applied to the amount of natural gas delivered under Retailer Distribution Service in the determination of municipal franchise tax payable (Rider "A") to municipalities that have agreed to accept payment of a percentage of gross revenues of the special franchise pursuant to Section 360 of the *Municipal Government Act* R.S.A. 2000, c. M-26.

The Deemed Cost of Gas Rider is equal to Rider "D" as amended from time to time and approved by the Alberta Utilities Commission.

EFFECTIVE DATE: Acknowledged Monthly	REPLACING RATE EFFECTIVE: Acknowledged Monthly	Page 1 of 1 RIDER "C"
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<b>RATE RIDER "D"</b>	<b>GAS COST RECOVERY RATE RIDER</b>
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**TO ALL SALES SERVICE RATES FOR THE RECOVERY OF GAS COSTS**

To be applied to the energy sold to all sales service rates unless otherwise specified by specific contracts.

The recovery of Gas Costs is subject to reconciliation based on actual experienced Gas Costs as approved by the Alberta Utilities Commission.

**Gas Cost Recovery Rate:**

First Day of Month to Last Day of Month: Dollars per GJ

EFFECTIVE DATE: Acknowledged Monthly	REPLACING RATE EFFECTIVE: Acknowledged Monthly	Page 1 of 1 RIDER "D"
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AltaGas Utilities Inc.

<b>RATE RIDER "E"</b>	<b>UNACCOUNTED-FOR GAS RIDER</b>
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**FOR THE DETERMINATION OF UNACCOUNTED-FOR GAS**

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 Decision 2013-396	REPLACING RATE EFFECTIVE: November 1, 2012 Decision 2012-292	Page 1 of 1 RIDER "E"
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AltaGas Utilities Inc.

<b>RATE RIDER "F"</b>	<b>"YEAR" DEFICIENCY RIDER</b>
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**Description:**

Identify the customers and the revenue types the Deficiency Rider will be applied to as well as any exceptions. The period to which the Deficiency Rider is being applied to is also identified.

*Example: "This rider applies to all distribution service customers' actual billed distribution revenue, excluding gas charges, on statements processed in the January 2007 through December 2007 billing cycles."*

**Rate:**

"Year" Deficiency Rider..... Deficiency Rate (% , \$/GJ)

**Application:**

Identify when the rider will be collected, including 'start date' and 'end date'.

*Example: "To be collected over the billing cycles of November 2008 through February 2009."*

EFFECTIVE DATE:		Page 1 of 1 RIDER "F"
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AltaGas Utilities Inc.

<b>RATE RIDER "G"</b>	<b>THIRD PARTY TRANSPORTATION COST RIDER</b>
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**TO ALL DISTRIBUTION SERVICE RATES FOR THE RECOVERY OF  
 THIRD PARTY TRANSPORTATION COSTS**

To be applied to the energy delivered to default supply and retail supply distribution service customers.

The recovery of third party transportation costs is subject to reconciliation based on actual experienced third party transportation costs as approved by the Alberta Utilities Commission.

**Third Party Transportation Cost Recovery Rate:**

First Day of Month to Last Day of Month: Dollars per GJ

EFFECTIVE DATE: Acknowledged Monthly	REPLACING RATE EFFECTIVE: Acknowledged Monthly	Page 1 of 1 RIDER "G"
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AltaGas Utilities Inc.

<b>RATE RIDER "H"</b>	<b>UNACCOUNTED-FOR GAS GAS SETTLEMENT</b>
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**FOR THE DETERMINATION OF UNACCOUNTED-FOR GAS FOR GAS SETTLEMENT**

The Unaccounted-For Gas Rate Rider 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 Decision 2013-396	REPLACING RATE EFFECTIVE:	Page 1 of 1 RIDER "H"
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AltaGas Utilities Inc.



<b>RATE RIDER "L"</b>	<b>LOAD BALANCING DEFERRAL ACCOUNT RIDER</b>
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Unless otherwise specified by specific contracts or the AUC, to be applied to the energy delivered to all Gas Distribution Service Customers as per the schedule below:

Effective: M/D/Y to M/D/Y

Rate 1/11 – Small General Service .....	\$x.xxx per GJ
Rate 2/12 – Large General Service .....	\$x.xxx per GJ
Rate 3/13 – Demand General Service .....	\$x.xxx per GJ
Rate 4/14 – Irrigation Service .....	\$x.xxx per GJ

EFFECTIVE DATE:	REPLACING RATE EFFECTIVE:	Page 1 of 1 RIDER "L"
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AltaGas Utilities Inc.

**AltaGas Utilities Inc.**  
**Special Charges Schedule**

In a number of places the Natural Gas Utility Service Rules refer to special charges for some services. Following is a list of the charges, as approved by the Alberta Utilities Commission. For the most current list of our standard non-refundable contributions, please go to [www.altagasutilities.com](http://www.altagasutilities.com) or contact us toll-free using our General Inquiry phone number to find current rates.

<b>Special Charge</b>	<b>Fee</b>
Account Activation Fee.....	\$ 36.17
Remove and test meter - per meter:	
Residential .....	\$ 77.49
Other.....	Actual Cost
Special meter readings/No Access Fee (each time) .....	\$ 36.17
Reconnection Fee:	
Residential .....	\$ 51.66
Other (except Irrigation).....	Actual Cost
Irrigation Disconnection/Reconnection Fee:	
Each time (except normal season start and end) .....	\$ 77.49
Reinstallation of Meter/Regulator:	
Residential .....	\$ 77.49
Other .....	Actual Cost
Dishonoured payment charge (NSF cheque, etc.) - each time .....	\$ 25.83
Cheque certification charge - each time .....	\$ 10.33
Any other service at Customer’s Request .....	Actual Cost
Late Payment Percentage	
Applied to any unpaid balance from previous bills.....	1.5%

Note: “Actual Cost”, where referenced, means our direct costs for labour, materials, services and equipment plus applicable overheads.

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**AltaGas Utilities Inc.**  
**Special Charges Schedule (continued)**

**AUC Rule 003 – Service Quality and Reliability Performance Monitoring and Reporting  
for Regulated Rate Providers and Default Supply Providers**

**Service Guarantee for Customers Who Purchase Default Supply**

We will credit your account with us for \$75.00 if:

- You were provided written notice of pending disconnection of service in error;
- You were provided written notice of pending referral to a credit agency in error;
- You were referred to a credit agency in error; or
- You experienced disconnection of service in error.

The \$75 credit will not be applied if the error was not made by us or if:

- Our written notice of pending disconnection or pending referral to a credit agency was not issued in error and our notice and your payment crossed in the mail;
- Our written notice of pending disconnection or pending referral to a credit agency was not issued in error and our notice was in mail transit at the time you made or attempted to make payment by visiting the premises of an authorized payment acceptance establishment, such as a bank, trust company or credit union;
- Our written notice of pending disconnection or pending referral to a credit agency was not issued in error and our notice was properly mailed, but you did not pick up the mail from locations, such as a post office, super mail box or home mail box;
- Our written notice of pending disconnection or pending referral to a credit agency was not issued in error and our notice was undelivered by the mail delivery service;  
or
- You attempted to make payment to one of our employees or someone hired by us to disconnect your *service site* and the disconnection was not in error, but that person was not authorized to accept payment.

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## AltaGas Utilities Inc. Special Charges Schedule (continued)

### Non-Refundable Contributions

Applications for service will require a non-refundable contribution. In most cases, a standard contribution is all that is required. Services uneconomic with a standard contribution will require an additional non-refundable contribution.

### Standard Non-Refundable Contributions

Standard contributions are filed for acknowledgment with the Commission when they are initially established and, thereafter, whenever they are changed. For a current list of our standard non-refundable contributions, please go to [www.altagasutilities.com](http://www.altagasutilities.com) or contact us toll-free using our General Inquiry phone number to find current rates.

### Non-Standard Non-Refundable Contributions

Winter Construction – Should the service be requested for installation under winter construction conditions, the customer is responsible for the incremental frost charges.

Other – If it is not economic to consider an application for service under a standard contribution, it will be evaluated individually to determine a specific, non-refundable contribution.

### Calculation of Specific Non-Refundable Contributions

The calculation of a specific non-refundable contribution will be based on a net present value analysis applying the following criteria:

- a) An estimate of the total capital costs of providing service;
- b) An estimate of the total annual operating costs of providing service;
- c) The *Commission*-approved return on common equity, interest rate, depreciation rates, income taxes and capital structure;
- d) An estimate of the expected net revenue that will accrue from the addition of the service.

The additional contribution will be the amount required to make the net present value of the revenue stream equal the revenue requirement stream.

**AltaGas Utilities Inc.**  
**Special Charges Schedule (continued)**

**Additional Criteria:**

- Rate 1/11 – Town – A *service site* located within an incorporated municipality, such as a village, town or city;
- Rate 1/11 – Rural Subdivision – A *service site* not defined as ‘Town’, but located in an AltaGas Utilities Inc. designated subdivision;
- Rate 1/11 – Rural Other – A *service site* which is neither defined as ‘Town’ nor ‘Rural Subdivision’
- Other – A *service site* which is served under any rate other than Rate 1/11.