



AltaGas Utilities Inc.

2013 Net Deficiency and Rider F

June 20, 2014



The Alberta Utilities Commission

Decision 2014-180: AltaGas Utilities Inc.

2013 Net Deficiency and Rider F

Application No. 1610297

Proceeding No. 3055

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1 Introduction

1. On January 31, 2014, AltaGas Utilities Inc. (AUI) submitted an application to the Alberta Utilities Commission (AUC or Commission) requesting approval to implement a 2013 capital tracker deficiency rate rider, Rider F, to be collected in April and May 2014.

2. On February 4, 2014, the Commission issued a notice of application that required interested parties to submit a statement of intent to participate (SIP) by February 18, 2014. In their SIPs, parties were to indicate whether they supported or objected to the application, reasons for their position, and the need for further process and the supporting rationale.

3. The Commission received SIPs from the Office of the Utilities Consumer Advocate (UCA), FortisAlberta Inc. (Fortis) and ATCO Gas, a division of ATCO Gas and Pipelines Ltd. In their respective SIPs, the UCA and Fortis both indicated that they had no objection to the application. In its SIP, ATCO Gas indicated that it may be affected by the matters raised in the application, but that it was, at that time, unable to determine the extent of its participation in the proceeding. ATCO Electric Ltd. also filed an involved party registration form in the proceeding but did not submit a SIP.

4. On February 21, 2014, the Commission issued Decision [2014-042](#),¹ granting AUI's request for a Phase II review and variance of Decision [2013-072](#).² The subject of the review and variance was the recovery of AUI's 2012 full-year return, depreciation and interest for Phase One of its Natural Gas Settlement System Code (NGSSC) project. In Decision 2014-042, the Commission directed AUI to file an updated application in the current proceeding, Proceeding No. 3055, to include the proposed recovery of an approximately \$192,000 shortfall associated with the full-year return, depreciation and interest for phase one of its NGSSC project in 2012.³

5. On February 21, 2014, consistent with Decision 2014-042, the Commission issued a letter directing AUI to submit a revised application by March 3, 2014. The Commission also extended the SIP deadline to March 13, 2014, in order to provide interested parties with a further opportunity to assess the extent of their involvement in the revised proceeding.

6. AUI filed the revised application on March 3, 2014, and the Commission issued a notice of the revised application on March 4, 2014.

¹ Decision 2014-042: AltaGas Utilities Inc., Phase II Review and Variance Decision on Decision 2013-072, 2012 Performance-Based Regulation Compliance Filings, Application No. 1610181, Proceeding ID No. 2981, February 21, 2014.

² 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.

³ Decision 2014-042, paragraph 26.

7. In the revised application, as directed by the Commission in its February 21, 2014 letter, AUI included all calculations and associated schedules for its 2013 net deficiency rider, (Rider F), for the following deficiency items:

- (a) the 2013 capital tracker deficiency amount of \$434,932 consisting of the difference between the 2013 capital tracker placeholder (K factor) approved on an interim basis in Decision 2013-072 and the 2013 K factor amount approved in the capital tracker Decision [2013-435](#);⁴
- (b) the remaining residual 2010-2012 deficiency amount of \$188,605 determined as an outstanding balance associated with the recovery of AUI's 2012 net deficiency approved in Decision [2013-160](#);⁵
- (c) the outstanding deficiency amount of \$159,573 associated with the difference between January 1, 2013 interim rates and those rates implemented on April 1, 2013, as determined in Decision [2013-270](#);⁶
- (d) the recovery of a \$192,236 shortfall amount associated with the 2012 full-year return, depreciation and interest for Phase One of AUI's NGSSC project, as approved by the Commission in Decision 2014-042; and
- (e) associated carrying costs in the amount of \$2,301.

8. In addition to previously filed SIPs, the Commission received a SIP from the Consumers' Coalition of Alberta (CCA) on March 13, 2014. In its SIP, the CCA requested the opportunity to test the application with a process of written information requests, information responses, argument and reply argument.

9. The Commission determined that the application would be considered by way of a minimal written process described in Bulletin [2010-16](#),⁷ and issued the following process and timeline for the application on March 19, 2014:

Process step	Deadline
Information requests (IRs) to AUI	4 p.m., April 2, 2014
AUI IR responses	4 p.m., April 16, 2014
Argument	4 p.m., April 30, 2014
Reply argument	4 p.m., May 14, 2014

⁴ Decision 2013-435: Distribution Performance-Based Regulation, 2013 Capital Tracker Applications, Application No. 1608827, Proceeding ID No. 2131, December 6, 2013.

⁵ Decision 2013-160: AltaGas Utilities Inc. 2010-2012 Final Rates, 2012 Revenue Deficiency, 2012 Meter Reading Costs Refund and 2010-2012 General Rate Application – Phase II Compliance Filing, Application No. 1609276, Proceeding ID No. 2408, April 26, 2013.

⁶ 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.

⁷ Bulletin 2010-16, Performance Standards for Processing Rate-Related Application, April 26, 2010.

10. On June 17, 2014, the Commission issued a second round of IR's requesting Rider F rate schedules from AUI, with a deadline date of June 18, 2014.
11. The Commission considers the record for this proceeding to have closed on June 18, 2014.
12. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

2 Background and details of the application

13. On March 4, 2013, the Commission issued Decision 2013-072, which dealt with the 2012 performance-based regulation (PBR) compliance filings for electric and gas distribution utilities. In Decision 2013-072, the Commission approved a K factor placeholder equal to 60 per cent of the K factor amounts applied for by the distribution utilities in their respective 2013 capital tracker applications, for inclusion in 2013 interim PBR rates.
14. In the current application, AUI submitted that in Decision 2013-072,⁸ the Commission approved, on an interim basis, a K factor placeholder amount of \$596,855 in relation to AUI's proposed 2013 capital tracker projects. AUI further submitted that the Commission approved 100 per cent⁹ or \$1,031,788 million of the 2013 K factor amount applied for in AUI's capital tracker application.¹⁰ As a result, AUI was directed to recover the difference between the two approved amounts using Rider F.¹¹

15. In Decision 2013-435, the Commission issued the following directions to AUI:

600. Accordingly, the 2013 forecast costs for each of AltaGas' three capital tracker programs are approved, as filed, for inclusion in its 2013 K factor. The Commission approves AltaGas' 2013 K factor of \$1.031 million to be recovered from customers on an interim basis. As determined at paragraphs 615 and 974 of Decision 2012-237, AltaGas will only be permitted to collect the approved forecast amounts for its approved capital tracker programs on an interim basis, subject to a prudence review and true-up to actual costs in respect of these programs, to be undertaken following completion of the 2013 programs.

601. AltaGas is directed to file an application for an adjustment to Rate Rider F to collect, on an interim basis, the 2013 forecast K factor amount in excess of the 60 per cent K factor placeholder amount that was included in AltaGas' 2013 PBR rates. This

⁸ The K factor placeholder amount of \$596,855 was approved in AUI's 2013 PBR second compliance filing application in Decision 2013-270.

⁹ In Decision 2013-435, the Commission did not approve cash working capital as a component of rate base in the calculation of the K factor. However, given that the cash working capital amount was a minimal amount, the Commission did not require AUI to make a compliance filing to remove the cash working capital from its K factor calculation. Rather, AUI was directed to remove it at the time of its 2013 true-up application.

¹⁰ Decision 2013-435, Table 9, paragraph 508.

¹¹ Exhibit No. 1, application, paragraph 16.

amount is to be recovered by December 31, 2014. AltaGas' 2014 K factor placeholder proposed in its 2014 annual PBR rate adjustment filing is not to be modified to account for the 2013 K factor amount.¹²

16. In the current application, AUI indicated that, consistent with the Commission's direction, the 2013 capital tracker deficiency was calculated by comparing the placeholder amount included in AUI's 2013 PBR rates to the amount approved in AUI's 2013 capital tracker application. As a result, AUI calculated its K Factor deficiency (shortfall) to be \$434,932.

17. On April 26, 2013, the Commission issued Decision 2013-160, which allowed AUI to recover a net deficiency amount of \$5,070,676, consisting of a revenue surplus for 2010 and revenue deficiencies for 2011 and 2012, a 2012 meter reading costs refund and applicable carrying costs. Accordingly, a net deficiency rider was implemented over a five-month collection period from May 1, 2013 to October 31, 2013.¹³ In Decision 2013-160, AUI proposed that it would file a reconciliation of the deficiency rider with the Commission by December 31, 2013.¹⁴

18. On December 24, 2013, AUI filed a letter with the Commission with respect to its 2010 to 2012 deficiency rider reconciliation.¹⁵ In the letter, AUI indicated that it had billed a total of \$4,880,758 of the deficiency, leaving an uncollected net balance of \$188,605. AUI submitted that it considered this uncollected balance to be "a significant dollar amount" and proposed to "carry the outstanding balance forward into the 2013 capital tracker deficiency rider, its next deficiency application."¹⁶ On December 27, 2013, the Commission acknowledged AUI's deficiency rider reconciliation filing and noted that it would review any residual deficiency rider proposal when AUI filed its next deficiency rider application.¹⁷ As a result, AUI has included in the application the remaining residual deficiency amount of \$188,605, determined as the outstanding balance associated with the recovery of AUI's net deficiency approved in Decision 2013-160.

19. In the application, AUI included a 2013 interim rate deficiency amount of \$159,573 relating to the difference between the interim rates in place on January 1, 2013, and the rates implemented on April 1, 2013, as determined in Decision 2013-270.¹⁸

20. In the application, AUI further included the identified shortfall of \$192,236 associated with the full-year return, depreciation and interest for its Phase One NGSSC project completed in 2012. This recovery was approved in Decision 2014-042.

21. In calculating the 2013 net deficiency amount to be recovered by Rider F, AUI included carrying costs in the amount of \$2,301 based on AUC [Rule 023: Rules Respecting Payment of Interest](#) (AUC Rule 023). In calculating the carrying costs amount, AUI used 2.75 per cent, consisting of the Bank of Canada's 1.25 per cent interest rate as of February 28, 2014, plus

¹² Decision 2013-435, paragraphs 600 and 601.

¹³ Decision 2013-160, paragraph 60.

¹⁴ Decision 2013-160, paragraph 55.

¹⁵ Proceeding No. 2408, Application No. 1610220, AUI 2010 to 2012 Deficiency Rider Reconciliation Filing.

¹⁶ *Ibid.*, page 2.

¹⁷ Application No. 1610220, AUC acknowledgement letter, paragraph 4.

¹⁸ Decision 2013-270, paragraph 9.

1.5 per cent,¹⁹ consistent with Alberta Energy and Utilities Board (EUB) Order U2006-41²⁰ and Decision 2008-103.²¹

22. In total, AUI is seeking to recover a 2013 net deficiency amount of \$977,647 comprised of \$434,932 for the 2013 capital tracker deficiency, \$188,605 for the 2010-2012 net revenue deficiency, \$159,573 for the 2013 interim rates deficiency and \$192,236 for the 2013 shortfall related to the Phase One NGSSC project, plus carrying costs of \$2,301.

3 Discussion of issues

3.1 Calculation of the 2013 net deficiency

23. In the application, AUI provided the following table showing the calculation of the 2013 net deficiency and the forecast distribution revenues for July and August of 2014:

Table 1. Calculation of the 2013 net deficiency²²

Description	Amount (\$)
Outstanding 2010 to 2012 deficiency	188,605
2013 capital tracker deficiency	434,932
2013 interim rates deficiency	159,573
Phase One NGSSC costs as per Decision 2014-042	192,236
Net deficiency	975,346
Carrying costs	2,301
Net deficiency (plus carrying costs) to recover	977,647
Forecast July/August 2014 distribution revenue	6,930,332

24. In calculating carrying costs in the amount of \$2,301 pursuant to AUC Rule 023, and assuming a two-month recovery period, AUI incorporated the Bank of Canada's bank rate as of February 28, 2014, plus 1.5 per cent.

25. In its response to a Commission information request, AUI explained that it made an unintentional formulaic error when calculating the carrying costs amount included in its original application materials. AUI provided revised schedules to ensure that the recalculated carrying costs amount of \$2,291 was consistent with the directives set out in Decision 2013-160.²³

¹⁹ Exhibit No. 11.01, AUI revised application, paragraph 27.

²⁰ Order U2006-41: AltaGas Utilities Inc., Interim Refundable Rates and 2005 Deficiency Rider Application, Application No. 1436060, February 21, 2006.

²¹ Decision 2008-103: AltaGas Utilities Inc., 2007 Deficiency Rider, Interim Refundable Rates, and Standard Contribution – Rural Other, Application No. 1575162, Proceeding ID. 64, October 21, 2008.

²² Exhibit No. 11.01, AUI revised application, paragraph 25.

²³ Exhibit No. 18.01, AUI information response, AUC-AUI-04 (a) and (b).

26. AUI provided the following table showing the revised 2013 net deficiency Rider F calculations totalling \$977,636:

Table 2. Revised calculation of the 2013 net deficiency²⁴

Description	Amount (\$)
Outstanding 2010 to 2012 deficiency	188,605
2013 capital tracker deficiency	434,932
2013 interim rates deficiency	159,573
Phase One NGSSC costs as per Decision 2014-042	192,236
Net deficiency	975,346
Carrying costs	2,291
Net deficiency (plus carrying costs) to recover	977,636
Forecast July/August 2014 distribution revenue	6,930,332

27. No intervener objected to AUI's proposed 2013 net deficiency component amounts or calculations.

Commission findings

28. The Commission has reviewed the components of AUI's 2013 net deficiency and, with the exception of the carrying costs component, is satisfied that all of the relevant elements have been included in the calculation described in AUI's original application materials and that the calculation has been performed correctly.

29. With respect to the carrying costs, the Commission has reviewed the calculations provided in the application as updated in response to AUC-AUI-4, and is satisfied that the calculations are correct.

30. The Commission has considered AUI's request for the approval of carrying costs under AUC Rule 023 and finds that the proposed carrying costs do not satisfy the criteria imposed by the rule.

31. The relevant portions of AUC Rule 023 state:

3(2) The Commission shall, when considering a request received under Section 3(1) of these rules, consider the following:

- (a) an adjustment from interim to final approved rates will normally be excluded from the awarding of interest since the interim rate is designed to reduce significant amounts that would otherwise be outstanding, except in situations where the adjustment resulted from significant errors or excesses on the part of the utility concerned or from circumstances that could not otherwise be contemplated when the rates in question were set;

...

²⁴ Exhibit No. 18.03, AUI information response, Attachment AUC-AUI-4b-Carrying Costs and Deficiency Rider Calculation-revised, Schedule 1A.

- (c) for general utility rates, the minimum amount of the forecast aggregate change in revenue shall ordinarily be the greater of $\pm\$1,000,000$ or \pm three per cent of the revenue from the rates being revised which may be tailored where unusual circumstances or conditions preclude its use or where acceptable procedures already exist;²⁵

32. The Commission notes that the forecast aggregate change in revenue is not greater than \$1,000,000 and, based on total 2014 distribution service revenues of \$61,249,370,²⁶ is not greater than three per cent of the revenue from the rates requested to be revised. The Commission finds that these facts are not supportive of AUI's request for approval of associated carrying costs. Given these facts, and the fact that AUI has not provided specific arguments in support of its request for relief in this particular instance, the Commission will not approve AUI's request for carrying charges in the amount of \$2,291.

33. In order to provide for greater regulatory efficiency, the Commission will permit AUI to collect the full amount of its requested Rider F, including the requested carrying charges, over the course of the requested collection period. However, AUI is directed to address the refund of these same carrying charges in the amount of \$2,291 in its upcoming 2015 annual PBR rate adjustment filing, as a Commission-directed Y factor.

3.2 Collection methodology

34. In the application, AUI proposed that the collection of the 2013 net deficiency be based on its 2014 forecast distribution service revenues, excluding the default supply provider (DSP) administration fee revenues.

35. In Decision 2013-465,²⁷ AUI explained that its 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 based 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. In Decision 2013-465, 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 that it should be recognizing DSP costs rather than DSP revenue per customer in calculating the DSP administration fee in a PBR year. In doing so, AUI's proposed calculation adjusted the variable portion of the costs annually by the I-X index and included changes in the number of customers. The fixed portion of the DSP costs was adjusted annually by the I-X index only, based on the rationale that the fixed portion of the DSP costs would unlikely vary with the changes in default customer numbers expected during the PBR term.²⁸

36. In the application, AUI submitted that the distribution service revenues include the daily base fixed charge, the variable base energy charge and the daily demand charge (where

²⁵ AUC Rule 023, Section 3(2)(a) and (c), page 2.

²⁶ Exhibit No. 18.03, AUI information response, Attachment AUC-AUI-4b-Carrying Costs and Deficiency Rider Calculation-revised, Schedule 5.

²⁷ Decision 2013-465: AltaGas Utilities Inc., 2014 Annual PBR Rate Adjustment Filing, Application No. 1609923, Proceeding ID No. 2831, December 23, 2013.

²⁸ Decision 2013-465, paragraphs 129 and 130.

applicable), and were derived from the forecast billing determinants applied for in AUI's 2014 annual PBR rate adjustment filing and approved in Decision 2013-465, updated with approved 2014 interim rates. AUI proposed to apply Rider F to all distribution service customers, including default supply customers served under rates 1, 2, 3, and 4, as well as customers served by competitive retailers under rates 11, 12, 13, and 14.²⁹ AUI provided schedules in Appendix 3. In calculating the deficiency rider recovery percentages, AUI divided the 2013 net deficiency amount by the total forecast distribution revenues for July and August 2014.

37. No intervener objected to AUI's proposed collection methodology.

Commission findings

38. The Commission finds all aspects of AUI's proposed methodology, with the exception of the exclusion of DSP administration fee revenues, to be consistent with Decision 2013-160. The separation of the DSP administration fee was dealt with in Decision 2013-465 on an interim basis and confirmed in Decision 2014-139.³⁰ Accordingly, the Commission accepts AUI's proposed methodology.

3.3 Collection period and bill impacts

39. AUI proposed that Rider F be applied over a two-month period from July 1, 2014 to August 31, 2014, in order to mitigate any impacts of the bill increase (decrease) and to apply the rider to all rate classes.³¹ AUI submitted that it considered the Rider F dollar amount to be significant, and the two-month collection period to be reasonable.³² AUI further submitted that its approach would also mitigate any potential rate impact, consistent with EUB Order U2005-341.³³

²⁹ Exhibit No. 11.01, AUI revised application, paragraphs 23, 25 and 29.

³⁰ Decision 2014-139: AltaGas Utilities Inc., 2013-2017 Performance-Based Regulation – Phase II Negotiated Settlement, Application No. 1609722, Proceeding No. 2687, May 23, 2014.

³¹ Exhibit No. 11.01, AUI revised application, paragraph 29.

³² Exhibit No. 11.01, AUI revised application, paragraph 28.

³³ EUB Order U2005-341: AltaGas Utilities Inc., 2003/2004 General Rate Application (GRA) Deficiency Rider and Disposition of Residual Revenue Excesses and Gains from the 2000/2001/2002 GRA, Application No. 1413073, August 24, 2005.

40. In the application, AUI provided the following table showing the impact of Rider F across various levels of consumption and rate classes:

Table 3. Bill impact for the July to August 2014 recovery period³⁴

	Rate 1/11 residential	Rate 1/11 commercial	Rate 1/11 rural	Rate 2/12 LGS	Rate 3/13 demand	Rate 4/14 irrigation
Consumption (July-August 2014) (GJ)	6	30	8	491	5,371	138
Days	62	62	62	62	62	62
Demand (GJ/day)	n/a	n/a	n/a	n/a	354	n/a
Base fixed charge (\$/day)	\$1.114	\$1.114	\$1.114	\$13.021	\$14.450	\$3.258
Base energy charge (\$/GJ)	\$1.843	\$1.843	\$1.843	\$1.027	\$0.031	\$1.055
Demand charge (\$/GJ/day)	n/a	n/a	n/a	n/a	\$0.262	n/a
Base fixed revenue	\$69	\$69	\$69	\$807	\$896	\$202
Base energy revenue	\$11	\$56	\$15	\$505	\$167	\$145
Demand revenue	n/a	n/a	n/a	n/a	\$5,750	n/a
Two-month revenue	\$80	\$125	\$85	\$1,312	\$6,813	\$347
2013 deficiency rider	15.6%	15.6%	15.6%	0.12%	-3.6%	5.3%
Total bill impact (two-month recovery)	\$12	\$19	\$13	\$2	\$(246)	\$18
Monthly impact (divided by 2)	\$6	\$10	\$7	\$1	\$(123)	\$9

41. AUI indicated that its proposed two-month recovery period takes into consideration the impact on customers and the company, as well as the time and resources required for Rider F to be implemented, in order to arrive at a fair and reasonable approach for a recovery of AUI's outstanding balances. In addition to mitigating potential rate impacts through the timing (i.e., a two-month recovery period over lower consumption months), AUI noted that its approach minimizes incremental carrying costs to its customers.³⁵

42. AUI argued that its proposed two-month recovery period for the July to August 2014 summer months is reasonable and balances the interests of both customers and AUI. AUI submitted that, although the percentages appear high, the monthly dollar impact on a total bill basis for the average residential customer would range from \$6 to \$10 over the summer months when natural gas bills are typically at their lowest. AUI further submitted that this result is consistent with previously approved revenue deficiency applications.³⁶

43. AUI further noted that its proposed two-month recovery period would:

- avoid additional charges for customers going into the winter period related to increased natural gas consumption
- allow AUI to collect the deficiency from irrigation customers in a timely manner
- reduce the impact of potential additional PBR rate changes, if applicable
- reduce rate impacts for customers over the year, thereby avoiding rate shock for customers³⁷

³⁴ Exhibit No. 11.01, AUI revised application, paragraph 31.

³⁵ Exhibit No. 11.01, AUI revised application, paragraph 32.

³⁶ Exhibit No. 20.01, AUI argument, paragraph 10.

³⁷ Exhibit No. 20.01, AUI argument, paragraph 11.

44. AUI also submitted that while most of the proposed Rider F amount relates to 2013 uncollected revenues, it also includes recovery of revenues dating back to the 2010 to 2012 test periods. As a result, the AUC Rule 023 carrying costs of 2.75 per cent do not fully compensate AUI for the associated financial burden of uncollected revenues, let alone over periods extending beyond a year.³⁸

45. In response to an information request, AUI provided recalculated total bill impacts including commodity charges. AUI submitted the following Table 4 showing the total bill impact for its proposed two-month recovery period:

Table 4. Bill impacts for the July to August 2014 recovery period (including commodity charges)³⁹

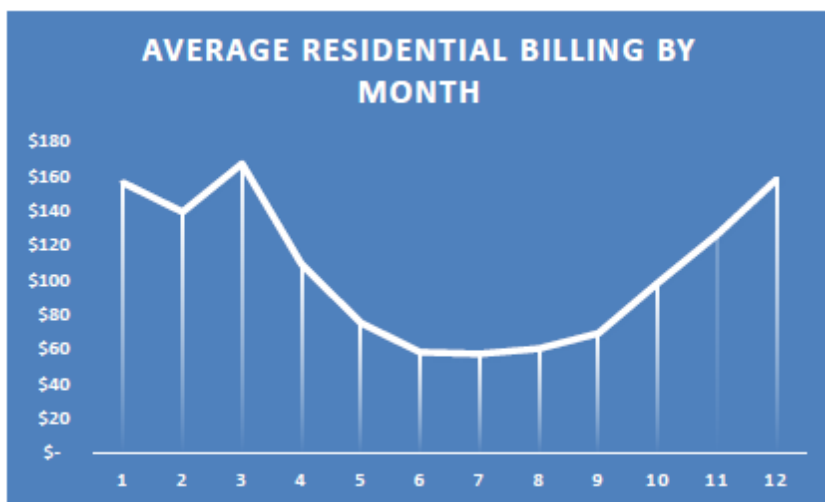
	Rate 1/11 residential	Rate 1/11 commercial	Rate 1/11 rural	Rate 2/12 LGS	Rate 3/13 demand	Rate 4/14 irrigation
Consumption (July-August 2014) (GJ)	6	30	8	491	5,371	138
Days	62	62	62	62	62	62
Demand (GJ/day)	n/a	n/a	n/a	n/a	354	n/a
Base fixed charge (\$/day)	\$1.114	\$1.114	\$1.114	\$13.021	\$14.450	\$3.258
Base energy charge (\$/GJ)	\$1.843	\$1.843	\$1.843	\$1.027	\$0.031	\$1.055
Demand charge (\$/GJ/day)	n/a	n/a	n/a	n/a	\$0.262	n/a
Base fixed revenue	\$69	\$69	\$69	\$807	\$896	\$202
Base energy revenue	\$11	\$55	\$15	\$504	\$167	\$146
Demand revenue	n/a	n/a	n/a	n/a	\$5,750	n/a
Two-month revenue	\$80	\$124	\$84	\$1,312	\$6,813	\$348
2013 deficiency rider	11.0%	11.0%	11.0%	0.06%	-1.7%	1.7%
Total bill impact (two-month recovery)	\$9	\$14	\$9	\$1	\$(118)	\$6
Monthly impact (divided by 2)	\$4	\$7	\$5	\$0	\$(59)	\$3

46. The CCA expressed concern about AUI's proposed two-month collection period and resulting total bill impact of 15.6 per cent for Rate 1/11. The CCA commented on the size of the percentage increase over the proposed two-month recovery period, submitted the following chart, and indicated that the proposed recovery period is at a point where it maximizes the percentage increase in residential billing since it is at the point of the lowest monthly combined bill. The CCA was concerned that, while the increase is small in absolute terms, it is an increase over what customers would normally expect for this time of year.⁴⁰

³⁸ Exhibit No. 18.01, AUI information response, AUC-AUI-2(a).

³⁹ Exhibit No. 18.02, AUI information response, Attachment AUC-AUI-2b-Carrying Costs and Deficiency Rider Calculation, Schedule 1B.

⁴⁰ Exhibit No. 21.01, CCA argument, paragraphs 5 to 6.

Chart 1: Average residential billing by month⁴¹

47. The CCA submitted that:

7. Typically the Commission restricts increase on distribution charges to 10% and will sometimes consider 10% on a total bill basis. The 15.6% increase over two months exceeds this threshold by 50%.

8. It is customary to smooth billing fluctuations in order to maintain rate stability and avoid short-term burdens.

9. For these reasons the CCA believes the recovery period should be extended over the period June-December or July-December. Although this would increase carrying costs as AUI points out, the rate is fair to both customers and the company and therefore not an issue. In any event, the carrying costs for the extension are approximately \$6,000.⁴²

48. In response, AUI replied that:

3. In AUI's submission, the CCA's line of reasoning is ill founded, circular and assumes the percentage impact is the best indicator of customer impact. Rather, AUI submits the impact of the proposed rate changes must take into consideration the specific circumstances surrounding the change, such as the period over which the rate change will apply, the impact in terms of overall rate shock and rate smoothing and the impact in absolute dollar terms, particularly where the change is short term and recovery designed to minimize increases during periods of higher consumption and, in general, higher commodity prices. As confirmed in Decision 2013-160:

The Commission considers *that the assessment of the impact of proposed rate changes is situation specific*. Principles cited in previous decisions and referred to in this proceeding include financial burden, rate shock, intergenerational equity and practical issues, such as understandability, logistics of implementation and other situation specific known or anticipated bill impacts. The Commission considers that the assessment of customer impact *must consider more than a*

⁴¹ Exhibit No. 21.01, CCA argument, paragraph 6.

⁴² Exhibit No. 21.01, CCA argument, paragraphs 7 to 9.

percentage metric {emphasis added} for rate shock and intergenerational equity [para. 47& 48]⁴³

49. AUI stated that it proposed a two-month recovery period after considering the rate impact on customers, the financial burden of uncollected revenues on AUI, certain amounts arising from the 2011-2012 period and the cumulative impact of pending applications currently before the Commission. Specifically, AUI indicated that its proposed two-month recovery period allows for deficiency recovery during the period when overall bills tend to be lowest. AUI explained that this is due to decreased demand and, typically, lower commodity costs, relative to other periods during the year such as October to April, and when recovery can be achieved across all rate classes, including irrigation customers, that contributed to the deficiency.⁴⁴

50. AUI indicated that one or more of a number of ongoing proceedings currently before the Commission including the 2013-2017 PBR Phase II application (Proceeding No. 2687), the 2014-2015 Capital Tracker application (Proceeding No. 3152), the 2013 Generic Cost of Capital application (Proceeding No. 2191, and the 2013 Capital Tracker True-up application (Proceeding No. 3244) may result in adjustments to customer rates in the late autumn or winter months.⁴⁵ Therefore, in AUI's submission, a recovery over July and August, 2014 would provide customers with desirable rate smoothing and minimize the potential customer impact in the autumn and winter months.⁴⁶

51. In addition, AUI submitted that the calculation of percentage impacts may vary significantly based on the inputs included in the calculation such as commodity prices, the commodity prices assumed in the calculation and the period covered in the calculation (annualized vs. actual period applied for).⁴⁷

52. In supporting its position, AUI noted that the proposed 15.6 per cent deficiency rider for Rate 1/11 is based on April 1, 2014, approved interim distribution rates applied over a two-month recovery period from July 1, 2014 to August 31, 2014. However, if calculated on an annualized basis, the recovery percentage would be 1.7 per cent (not including commodity charges).⁴⁸ AUI also provided the following summary table outlining increases (annualized and excluding commodity charges) that resulted from past decisions on deficiency applications:

⁴³ Exhibit No. 23.01, AUI reply argument, paragraph 3.

⁴⁴ Exhibit No. 23.01, AUI reply argument, paragraph 4.

⁴⁵ Exhibit No. 23.01, AUI reply argument, paragraph 4.

⁴⁶ Exhibit No. 20.01, AUI argument, paragraph 12.

⁴⁷ Exhibit No. 23.01, AUI reply argument, paragraph 5.

⁴⁸ Exhibit No. 23.01, AUI reply argument, paragraph 5.

Table 5. Summary of AUI deficiency rider decisions and the impact on Rate Class 1/11⁴⁹

Deficiency application	Total deficiency (million)	*Recovery percentage/dollars	Deficiency calculation base	Collection period	Monthly bill impact - residential	EUB/AUC order/ decision
2003-2004	\$0.5	\$0.02	Actual 2004 billed distribution revenues	October 2005	\$7	Order U2005-341
2005	\$3.5	12.4%	Actual 2005 billed distribution revenues	March - May 2006	\$14	Order U2006-041
2006	\$0.5	2.0%	Actual 2006 billed distribution revenues	November 2007	\$7.60	Order U2008-131
2007	\$2.3	7.9%	Actual 2007 billed distribution revenues	November 2008 - February 2009	\$7.50	orders U2008-103, U2008-324
2010-2012	\$5.1	8.6%	Forecast annual 2013 distribution revenues	May - October 2013	\$6 to \$10	Decision 2013-160
2013	\$0.98	1.7%	Forecast annual 2014 distribution revenues (Excl. DSP)	July - August 2014	\$6	Pending

53. AUI submitted that the proposed Rider F equates to an average residential charge of \$6 to \$10 per month over the 2014 July and August summer period. AUI contends that this charge is reasonable and falls within previous Commission approved monthly ranges of \$7 to \$14 per month, as shown in Table 5 above. AUI noted that the percentage impact would be even lower if commodity costs were included in the calculation.⁵⁰ In AUI's opinion, the percentage and how it is calculated should have minimal impact on the assessment of the reasonableness of the proposed rider, as compared to other considerations, such as absolute dollar impacts, rate smoothing, potential impacts from other rate changes and customers' reasonable ability to accommodate temporary rate changes over proposed periods.⁵¹

54. AUI argued that the CCA's recommendation to extend the recovery period to June to December 2014 or to July to December 2014 should be rejected since this extension would fail to balance the interests of AUI and its customers, would lead to recovery during periods when overall bills and commodity costs are generally highest and would limit recovery from some rate classes (i.e., Rate 4/14) for a significant portion of the recovery period.⁵²

Commission findings

55. The Commission has reviewed the bill impacts outlined in the application and is mindful of the potential for rate shock. The Commission has, in some circumstances, considered the impact of rate riders in absolute dollars, as opposed to in percentage terms, as was discussed in Decision 2013-160.

56. The Commission determined in Decision 2013-160 that:

47. The Commission considers that the assessment of the impact of proposed rate changes is situation specific. Principles cited in previous decisions and referred to in this proceeding include financial burden, rate shock, intergenerational equity and practical

⁴⁹ Exhibit No. 23.01, AUI reply argument, paragraph 5.

⁵⁰ Exhibit No. 23.01, AUI reply argument, paragraph 6.

⁵¹ Exhibit No. 23.01, AUI reply argument, paragraph 6.

⁵² Exhibit No. 23.01, AUI reply argument, paragraph 7.

issues, such as understandability, logistics of implementation and other situation specific known or anticipated bill impacts.

48. The Commission considers that the assessment of customer impact must consider more than a percentage metric for rate shock and intergenerational equity. Although the Commission does not regulate the commodity portion of customer bills, the Commission has in the past when assessing rate shock considered the increase in rates relative to both the total bill and the total bill excluding commodity charges. As commodity charges fluctuate with both the price of natural gas and seasonal variations in consumption, comparison to the total bill provides different results in different seasons. The percentage rate impact of riders is higher in the summer months when commodity charges are lower than in the non-summer months when commodity charges are higher. However, with lower total bills, consumers may be more able to accommodate rate riders during the summer months.

49. As argued by AUI, there are a number of inputs to the calculation of the percentage impact, such as the time period over which the percentage is calculated and the base used to calculate the percentage. Given the seasonality of commodity demand and the fluctuation of commodity prices, the use of a percentage impact will not always be the best indicator of customer impact.⁵³

57. AUI calculated the Rider F impact for typical Rate 1/11 residential, commercial and rural customers for a two-month recovery period, excluding and including the commodity charge, to be 15.6 per cent and 11.0 per cent, respectively. As outlined by AUI in its reply argument, when calculated on an annualized basis, the impact of Rider F, not including commodity charges, equals 1.7 per cent. The Commission notes that this impact would be even less if the commodity charge was included. The Commission considers, however, that the comparison of the rider amount to previous revenue deficiency rider amounts in dollar terms is more indicative of customer impact than using percentage impact metrics.

58. As shown in Table 5, monthly impacts resulting from previous revenue deficiency decisions have ranged from \$7 to \$14 per month and were, in most cases, collected during the non-summer months over various recovery periods. In the current proceeding, the dollar impact for typical Rate 1/11 residential, commercial and rural customers is between \$6 to \$10 per month, which compares favourably with the previously approved revenue deficiency riders. In addition, when including the commodity charge, the dollar impact for typical Rate 1/11 residential, commercial and rural customers is between \$4 and \$7 per month. The Commission considers dollar impacts in this range to be reasonable, especially in the case of a collection in the summer months. Therefore, the Commission agrees with AUI's submission that a recovery over July and August, 2014 would provide customers with desirable rate smoothing and minimize the potential customer impact in the autumn and winter months.⁵⁴

59. Based on the above analysis, and in particular the bill impact of Rider F on typical Rate 1/11 residential, commercial and rural customers, the Commission approves AUI's proposed two-month net deficiency rider collection period, from July 1, 2014 to August 31, 2014.

⁵³ Decision 2013-160, paragraphs 47 to 49.

⁵⁴ Exhibit No. 20.01, AUI argument, paragraph 12.

3.4 Over-/under-collection of any residual deficiency amount and reconciliation

60. In the application, AUI proposed to provide a reconciliation of the 2013 net deficiency collection to the Commission on or before November 30, 2014 and that any material residual balances be added to or subtracted from future deficiency or rate adjustment riders.

61. With regard to over or under-collection of any residual deficiency balance, AUI indicated that it considers amounts \pm \$10,000 to be the appropriate threshold. AUI further proposed that any amount in excess of this threshold should be administered through supplementary refund or collection mechanisms. From a practical perspective, supplementary refund or collection mechanisms for amounts less than \$10,000 likely would not warrant the additional regulatory time and effort required by AUI, the Commission and interveners. AUI submitted that any residual deficiency amount less than \$10,000 should therefore be taken into, or applied against, income on a current basis.⁵⁵

62. No intervener objected to AUI's proposal in this regard.

Commission findings

63. The Commission accepts AUI's proposal to provide a reconciliation of the 2013 net deficiency collection to the Commission on or before November 30, 2014 and directs AUI to provide such a reconciliation.

64. With respect to materiality, the Commission finds AUI's proposed \$10,000 materiality threshold and proposed mechanism for supplementary refund or collection to be reasonable and to provide for regulatory efficiency. Accordingly, the proposed threshold and supplementary refund or collection mechanism are approved. In the event of a material residual deficiency balance, AUI is directed to file a letter with the Commission for acknowledgement identifying the balance and confirming that it has been taken into or applied against income on a current basis.

4 Order

65. It is hereby ordered that:

- (1) AltaGas Utilities Inc. is authorized to collect the 2013 net deficiency amount of \$977,636 (\$975,346 + \$2,291) by way of Rider F from July 1, 2014 to August 31, 2014, as set out in [Appendix 3](#).
- (2) AltaGas Utilities Inc. is directed to address the refund of the carrying charges in the amount of \$2,291 in its upcoming 2015 annual PBR rate adjustment filing, as a Commission-directed Y factor.

⁵⁵ Exhibit No. 18.01, AUI information response, AUC-AUI-3.

- (3) AltaGas Utilities Inc. will file with the Commission a reconciliation of the 2013 net deficiency amount by November 30, 2014.

Dated on June 20, 2014.

The Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
AltaGas Utilities Inc. (AUI) J. Coleman
ATCO Electric Ltd. (ATCO Electric) L. Kerckhof B. Yee
ATCO Gas L. Brennand D. Connolly V. Chan A. Green
Consumers' Coalition of Alberta (CCA) J. A. Wachowich J. A. Jodoin
FortisAlberta Inc. (Fortis) J. Croteau J. Walsh
Office of the Utilities Consumer Advocate (UCA) R. McCreary K. Arrowsmith

The Alberta Utilities Commission
Commission Panel M. Kolesar, Vice-Chair
Commission Staff R. Finn (Commission counsel) P. Genderka P. Howard

Appendix 2 – Summary of Commission directions

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

1. In order to provide for greater regulatory efficiency, the Commission will permit AUI to collect the full amount of its requested Rider F, including the requested carrying charges, over the course of the requested collection period. However, AUI is directed to address the refund of these same carrying charges in the amount of \$2,291 in its upcoming 2015 annual PBR rate adjustment filing, as a Commission-directed Y factor. Paragraph 33
2. The Commission accepts AUI’s proposal to provide a reconciliation of the 2013 net deficiency collection to the Commission on or before November 30, 2014 and directs AUI to provide such a reconciliation. Paragraph 63
3. With respect to materiality, the Commission finds AUI’s proposed \$10,000 materiality threshold and proposed mechanism for supplementary refund or collection to be reasonable and to provide for regulatory efficiency. Accordingly, the proposed threshold and supplementary refund or collection mechanism are approved. In the event of a material residual deficiency balance, AUI is directed to file a letter with the Commission for acknowledgement identifying the balance and confirming that it has been taken into or applied against income on a current basis. Paragraph 64

Appendix 3 – Rider F

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



Appendix 3 - Rider F

(consists of 1 page)

RATE RIDER "F"	2013 DEFICIENCY RIDER
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Description:

The 2013 Deficiency Rider "F" applies to all distribution service customers' actual billed distribution revenue, excluding the Default Supply Administration Fee and Commodity charges.

Default supply customers served under Rates 1, 2, 3, and 4, as well as customers served by competitive retailers under Rates 11, 12, 13, and 14 will be billed in the July 2014 and August 2014 calendar months.

Rate:

2013 Deficiency Rider Percentages:

Rate Class	Deficiency Percentage
Rate 1/11	15.61%
Rate 2/12	0.12%
Rate 3/13	-3.61%
Rate 4/14	5.29%

Application:

2013 Deficiency Rider "F" will be collected on customer bills from July 1 to August 31, 2014.

EFFECTIVE DATE: July 1, 2014		Page 1 of 1 RIDER "F"
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AltaGas Utilities Inc.