



AltaGas Utilities Inc.

Decision 2006-117 (Errata)
2005/2006 General Rate Application
Phase I Second Compliance Filing

November 22, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-117 (Errata): AltaGas Utilities Inc.

2005/2006 General Rate Application – Phase I Second Compliance Filing

Application No. 1474463

November 22, 2006

Published by

Alberta Energy and Utilities Board

640 – 5 Avenue SW

Calgary, Alberta

T2P 3G4

Telephone: (403) 297-8311

Fax: (403) 297-7040

Web site: www.eub.gov.ab.ca

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

ALTAGAS UTILITIES INC.

DECISION 2006-117 (ERRATA)

2005/2006 GENERAL RATE APPLICATION (GRA)

PHASE I SECOND COMPLIANCE FILING

Decision 2006-117 (Errata)

Application No. 1474463

1 BACKGROUND

On November 21, 2006, the Alberta Energy and Utilities Board (Board) issued Decision 2006-117 (the Decision), dealing with AltaGas Utilities Inc.'s 2005 and 2006 Phase I GRA Second Compliance Filing.

The Board notes that the Decision contained several inadvertent errors or omissions. Accordingly, this Errata Decision is issued to rectify the errors and omissions of Decision 2006-117, which is considered to be amended as described.

2 ERRORS AND OMISSIONS

In order to correct certain errors and omissions in the Decision, the statements indicated in boldface have been removed from the Decision.

2.1 Reference: Section 3 Fixed Capitalized Overheads

The Decision stated, at page 4:

However, the Board is interested in understanding the overhead capitalization issue better and directs AUI to provide a study at its next GRA (**or within a negotiated settlement**) that would update its policy regarding an appropriate capitalization rate of overheads and reflect a proper and reasonable addition to any particular capital project to be undertaken, consistent with Board Direction 7 from Decision 2005-127.¹ The study to be filed by AUI should be detailed enough to allow the Board and interveners to fully understand this issue and its ramifications in terms of establishing forecast revenue requirements and rates for a particular test period.

The first sentence of this statement is amended as follows:

However, the Board is interested in understanding the overhead capitalization issue better and directs AUI to provide a study at its next GRA that would update its policy regarding an appropriate capitalization rate of overheads and reflect a proper and reasonable addition to any particular capital project to be undertaken, consistent with Board Direction 7 from Decision 2005-127.¹

¹ Decision 2005-127, page 9

2.2 Reference: Section 7 Order (2)

The Decision stated that, at page 7:

AltaGas Utilities Inc. is directed to provide a study at its next GRA (**or within a negotiated settlement**) that would update its policy regarding an appropriate capitalization rate of overheads and reflect a proper and reasonable addition to any particular capital project to be undertaken, consistent with Board Direction 7 from Decision 2005-127.

Order (2) of the Decision is amended as follows:

AltaGas Utilities Inc. is directed to provide a study at its next GRA that would update its policy regarding an appropriate capitalization rate of overheads and reflect a proper and reasonable addition to any particular capital project to be undertaken, consistent with Board Direction 7 from Decision 2005-127.

Dated in Calgary, Alberta, on November 22, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

Gordon J. Miller
Member

(original signed by)

M. L. Asgar-Deen, P.Eng.
Acting Member



AltaGas Utilities Inc.

**2005/2006 General Rate Application
Phase I Second Compliance Filing**

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

ALTAGAS UTILITIES INC. 2005/2006 GENERAL RATE APPLICATION PHASE I SECOND COMPLIANCE FILING

**Decision 2006-117
Application No. 1474463**

1 INTRODUCTION

On August 14, 2006, the Alberta Energy and Utilities Board (the Board) received an application (Application or Second Compliance Filing) from AltaGas Utilities Inc. (AUI) regarding the Phase I portion of AUI's 2005/2006 General Rate Application (GRA). AUI submitted that the Application was necessary to finalize AUI's revenue requirement and rate base for the 2005 and 2006 test periods.

AUI indicated that finalizing its revenue requirement would assist in the preparation of Phase II of the 2005/2006 GRA. Specifically, the Second Compliance Filing is required to address the following:

1. Replace the fixed capitalized overhead amounts removed in the first compliance filing. By way of letter dated April 18, 2006, the Board confirmed that Decision 2005-127 (AUI 2005/2006 Phase I GRA) did not intend to exclude these costs from rate base.
2. Incorporate a correction to Large Corporations Tax.
3. Update revenues to reflect the interim approved rates that came into effect March 1, 2006.
4. Update cost of capital based on Board Decision [2006-049](#)¹ (AUI Debenture Application), approving AUI's 2005 new debt at a rate of 5.44%.

In a letter dated August 21, 2006, the Board provided notice of the Application to interested parties. Any party that wished to file an intervention with regards to the Application was required to file a Statement of Intention to Participate (SIP) by August 31, 2006.

The Board received SIPs from the following parties (collectively known as the Consumer Group (CG)):

- the Office of the Utilities Consumer Advocate (UCA);
- the Municipal and Gas Co-op Interveners (MGCI); and
- the Consumers Coalition of Alberta (CCA).

In a letter dated September 14, 2006, the Board set a process schedule for AUI's Second Compliance Filing, with argument and reply due October 12, 2006 and October 23, 2006 respectively.

¹ Decision 2006-049 – AltaGas Utilities Inc. Request for Approval of Debenture Issue (Released: May 24, 2006)

In accordance with the schedule, the Board received Reply Argument on October 23, 2006. The Board considers this date to be the close of record of this proceeding.

2 BACKGROUND

Decision 2005-127,² dated November 29, 2005, dealt with the Board's determinations with respect to AUI's 2005/2006 Phase I GRA.

In Order U2006-41,³ dated February 21, 2006, the Board approved AUI's interim refundable rates and a 2005 deficiency rider effective March 1, 2006, with the deficiency rider to be collected over a three month period.

In Decision 2006-034,⁴ dated April 4, 2006, the Board determined that AUI complied with the Board's directions from Decision 2005-127. Subject to any minor revisions arising from Section 3.2 (Transmission Plant Pipeline Expenditure) of Decision 2006-034, the Board approved AUI's forecast revenue requirement of \$33,122,475 in 2005 and \$33,412,217 in 2006, excluding the cost of gas.

3 FIXED CAPITALIZED OVERHEADS

On December 21, 2005, AUI filed an application for review and variance of the capital overheads related to capital expenditures approved in Decision 2005-127. By letter dated April 5, 2006 (R&V Decision), the Board denied AUI's application for review and variance because AUI did not raise any new evidence or circumstances that could lead the Board to change its decision. However, the Board found that Decision 2005-127 was "not clear as to whether the Board intended to reduce or not to reduce certain overhead costs incidentally with the reduction of capital expenditures." The Board indicated that clarity with respect to this matter could be addressed in the compliance filing.

In Decision 2006-034, which was issued on April 4, 2006 and dealt with AUI's first compliance filing, the Board found that it was appropriate to reduce AUI's forecast operating expenses by \$272,900 and to increase forecast capital expenditures by the same amount in order to maintain the 35% capitalization rate. The Board noted that it was not intended that compliance with its capitalization rate findings and Direction 21 in Decision 2005-127 would result in a disallowance of costs.

In this Second Compliance Filing, AUI has requested that the Board replace the fixed capitalized overhead amounts removed in the first compliance filing. This request was based on a Board letter of April 18, 2006, in response to a request from AUI, that confirmed that fixed capital overheads related to capital expenditures were not meant to be disallowed. AUI requested

² Decision 2005-127 – AltaGas Utilities Inc. 2005/2006 General Rate Application – Phase I (Application No. 1378000) (Released: November 29, 2005)

³ Order U2006-41 – AltaGas Utilities Inc. Interim Refundable Rates and 2005 Deficiency Rider Application (Application 1436060) (Released: February 21, 2006)

⁴ Decision 2006-034 AltaGas Utilities Inc. 2005/2006 General Rate Application – Phase I Compliance Filing (Application 1436063) (Released: April 4, 2006)

\$267,653 and \$217,145 of fixed overheads be added back to gross plant-in-service in 2005 and 2006.⁵

The CG considered that neither Decision 2006-034 nor Direction 21 from Decision 2005-127 addressed the issue of capitalized overhead amounts related to proposed capital projects that are not approved. Decision 2005-127 retained the 35% capitalization rate and directed AUI to demonstrate any changes to the capitalization rate through a detailed study. Decision 2006-034 reduced operating expenses and increased capital expenditures, each by \$272,900 rather than the amount of \$131,700 as approved in Decision 2005-127.

The CG reviewed the most recent decisions for other utilities in Alberta and determined that adjustments for capital additions denied by the Board include capitalized overheads for those utilities. The CG noted a variety of cases whereby no adjustment was made to capitalized overheads related to denied capital projects.⁶

The CG argued that the Board has consistently disallowed the capitalized overheads included with denied capital additions for most if not all other utilities. The CG concluded that if the projects were not prudent or not required in the test years as forecast, then the overheads are equally not prudent nor required as forecast. Accordingly, the CG submitted that the \$267,653 and \$217,145 of capitalized overheads that were effectively denied in Decision 2006-034 should not be included in 2005 and 2006 capital additions.

AUI submitted that the capitalized overheads were not effectively denied as stated by the CG. Rather, the Board allowed these amounts in Decision 2006-034, and further confirmed this in a letter dated April 18, 2006. The matter was also clarified by the Board in the R&V Decision, in which the Board indicated that the “Board was aware of the method by which your client deals with overhead costs (given the discussion at page 9 of Decision 2005-127).” The Board further stated, “In fact, the Board notes that your client’s recent compliance filing does indeed address this issue and, as such, the merits of this issue are being considered as part of the compliance filing process.”

Based on the above, AUI restored fixed capitalized overhead amounts excluded from the first compliance filing.

AUI argued that it does not require approval in the Second Compliance Filing to add back the referenced fixed capital overhead costs, as this was already approved by the Board. AUI was simply including the amounts in the Second Compliance Filing to complete the record. In AUI’s view, the capitalization practices of other utilities as referenced by the CG in its argument are different and not relevant, but in any event, can be addressed by the CG in AUI’s next GRA.

The Board concurs with the CG that forecast capitalized overhead amounts directly related to denied projects should in most circumstances also be denied. However, AUI’s practice of capitalizing a fixed percentage (35%) of administration and general expenses essentially removes any direct linkage between forecast capitalized overhead amounts and individual capital projects,

⁵ BR-AUI-1(f)

⁶ Decision 2006-054-EPCOR Transmission Inc. and EPCOR Distribution Inc., Decision 2003-100- ATCO Pipelines, and Decision 2006-004 respecting ATCO Gas

thereby making adjustment to forecast capitalized overhead amounts due to project denial problematic.

Direction 21 in Decision 2005-127⁷ required AUI to allocate 35% of its administration and general costs (A&G or overheads) to capital projects. To the extent that certain capital projects have been denied, the Board concurs with AUI that a reallocation of those capitalized A&G costs that were otherwise included with the denied projects would be required in order to comply with Direction 21.

Therefore, for purposes of this Application, the Board will accept AUI's capitalized overhead amounts as filed in the Application. The Board approves AUI's reallocation of capitalized overheads associated with denied projects.

However, the Board is interested in understanding the overhead capitalization issue better and directs AUI to provide a study at its next GRA (or within a negotiated settlement) that would update its policy regarding an appropriate capitalization rate of overheads and reflect a proper and reasonable addition to any particular capital project to be undertaken, consistent with Board Direction 7 from Decision 2005-127.⁸ The study to be filed by AUI should be detailed enough to allow the board and interveners to fully understand this issue and its ramifications in terms of establishing forecast revenue requirements and rates for a particular test period.

4 INCOME TAXES

As part of the first compliance filing, on February 3, 2006, AUI acknowledged that the CG had correctly identified an inconsistency between Exhibit 13-041 provided during the hearing leading to Decision 2005-127 and the first compliance filing. AUI provided a schedule that detailed a correction to the capital deduction used in calculating Large Corporations Tax (LCT). AUI submitted that it was not the intention of the Board to exclude this correction from Decision 2006-034.⁹ Therefore, AUI included the correction to the capital deduction in this Application.

The Board concurs with AUI's assessment and its decision to include the correction in this Application.

4.1 Large Corporations Tax (LCT)

The CG noted that the increase in LCT was due to the fact that the first compliance filing incorrectly used a higher capital deduction amount. More specifically, AUI used a capital deduction amount of \$9,687,400 in 2005 and \$9,669,600 for 2006. The CG submitted that the correct amount is \$6,527,500 for each of 2005 and 2006.¹⁰

The combined 2005-2006 increase calculated according to the CG is \$14,012,¹¹ whereas the amount calculated by AUI is \$14,467.¹² The additional amount of \$655 is attributed to the

⁷ Decision 2005-127 AUI Phase 1 2005/2006 GRA, page 26

⁸ Decision 2005-127, page 9

⁹ EUB Decision 2006-034 AltaGas Utilities Inc. 2005/2006 General Rate Application – Phase I Compliance Filing (Released: April 4, 2006).

¹⁰ X13-041 of the 2005-06 GTA

¹¹ IR CCA-AUI-1 (Preamble)

¹² Response BR-AUI-1 (c)

“secondary effect from changes to Investor Capital and Rounding”.¹³ While the CG stated that AUI provided no evidence to support the changes to the Investor Capital amount, the CG considers the difference to be immaterial and does not object to the adjustment proposed by AUI.

The Board is satisfied that AUI appropriately revised the capital deduction amount associated with AUI’s LCT calculation. Further, the Board notes that the CG was not opposed to AUI’s revision. The Board therefore approves AUI’s change to Large Corporations Tax as filed.

4.2 Undepreciated Capital Cost/Capital Cost Allowance Continuity Balances

The CG noted that the financial schedules accompanying the Second Compliance Filing do not contain any schedules in support of the revised Capital Cost Allowance (CCA) amounts.

As AUI has not filed the detailed Undepreciated Capital Cost/CCA continuity schedules in support of the above noted changes, the CG stated it could not comment on the accuracy of the changes in the CCA claimed for income tax purposes and the consequential impact on income tax calculations for the test years.

The Board notes that the CG did not oppose AUI’s CCA revisions. The Board is satisfied that AUI’s revision to CCA appears to be appropriate, and therefore approves AUI’s revisions to CCA as filed.

5 ADJUSTMENTS TO 2006 REVENUE (ORDER U2006-41 INTERIM RATES)

AUI submitted that it is customary regulatory practice to use existing rates (rates in effect) in determining revenue deficiency. When the first compliance filing was made, AUI had not received Board approval for its proposed interim rates. By the time the Second Compliance Filing was made, the Board had approved AUI’s request for interim rates. Therefore, AUI submitted that it used the most current rates approved by the Board for this Application.

In response to a question as to why there is still a revenue deficiency forecast for 2006,¹⁴ AUI explained that “the revenue deficiency remaining in 2006 of \$340,659 is because the annualized rate adjustment was in effect for only 10 of 12 months of 2006.” If that was the only reason, the CG submitted that the 2006 Revenue Adjustment would be roughly 10/12 of the \$3,142,550¹⁵ original revenue deficiency, or \$2,618,792, leaving \$523,758 uncollected. Subtracting the 2006 Revenue Requirement Adjustments of \$312,153¹⁶ would result in a 2006 Revenue Deficiency of \$211,605 instead of the \$340,659¹⁷ amount put forth by AUI. As a result, the CG considered AUI’s response to be incomplete.

Nonetheless, the CG did not oppose the calculation of the 2006 Revenue Adjustment of \$2,489,749 put forth by AUI in MGCI-AUI-1(a).

¹³ Ibid

¹⁴ MGCI-AUI-1(b)

¹⁵ 1st Compliance Filing, Schedule 3.1, Line 8

¹⁶ 2nd Compliance Filing, Appendix B, page 1 of 4

¹⁷ 2nd Compliance Filing, Schedule 3.1, Line 8

AUI submitted that the CG's method of determining the 2006 revenue deficiency is flawed:

- The methodology illustrated in the CG/MCGI's argument incorrectly assumes that sales units and revenues occur uniformly throughout the year. In response to MCGI-AUI-1 (a), AUI provided the billing determinants necessary to calculate the 2006 revenues. In AUI's response, the monthly data clearly shows that sales units and revenues are not uniform throughout the year. – AUI's weather-sensitive customer base consumes the most in winter months and least during the summer.
- The methodology illustrated in the CG/MCGI's argument ignores the change in Board-approved rates. AUI specified in several places that revenues had been updated for rates in effect March 1, 2006.
 - August 14, 2006 – AUI states in its original application that, “rates came into effect March 1, 2006.”
 - In response to MCGI-AUI-1 (a), AUI responded by stating, “Interim rates approved in EUB Order 2006-41, that came into effect March 1, 2006, were used in the second compliance filing.”
 - In response to MCGI-AUI-1 (a), AUI provided, “... a fully functional electronic spreadsheet to demonstrate the calculations for determining the 2006 revenue”.

The Board concurs with AUI that the CG failed to take into consideration the weather-sensitivity of AUI's customer base when calculating revenue. The Board notes that the monthly data shows that sales units and revenues are not uniform throughout the year, with customers consuming the most in winter months and least during the summer. The Board is satisfied that AUI's 2006 revenue adjustment and revenue deficiency of \$340,648 is reasonable, and therefore approves this amount.

6 COST OF DEBT ADJUSTMENT TO REVENUE REQUIREMENT

For the first compliance filing, a placeholder debt cost of 6.7% was used. On May 24, 2006, the Board issued Decision 2006-049 approving AUI's 2005 debenture at a rate of 5.44%. The Board stated in Decision 2005-127 that, “[upon] approval of AUI's debenture application, the Board directs AUI to reflect [the debt rate] change in its revenue requirement...” Therefore, AUI used the cost of debt approved by the Board in Decision 2006-049 in this Application.

The CG did not oppose the calculation of the Adjustment to Revenue Requirement relating to Cost of Debt – 2005 New Debt on page 1 of 1, Appendix B.

The Board is satisfied that AUI has appropriately reflected the change in the cost of debt for AUI's 2005 debenture, replacing the placeholder of 6.7% from Decision 2005-127 with the approved 5.44% from Decision 2006-049.

7 ORDER

IT IS HEREBY ORDERED THAT:

- (1) AltaGas Utilities Inc.'s 2005 and 2006 Phase I Second Compliance Filing is approved as filed, including AUI's revenue requirement of \$134,610,495 (which includes a cost of gas component of \$101,639,832) and \$131,723,158 (which includes a cost of gas component of \$98,623,093) and rate base of \$144,506,299 and \$146,585,346 for the 2005 and 2006 test years respectively.
- (2) AltaGas Utilities Inc. is directed to provide a study at its next GRA (or within a negotiated settlement) that would update its policy regarding an appropriate capitalization rate of overheads and reflect a proper and reasonable addition to any particular capital project to be undertaken, consistent with Board Direction 7 from Decision 2005-127.

Dated in Calgary, Alberta on November 21, 2006.

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