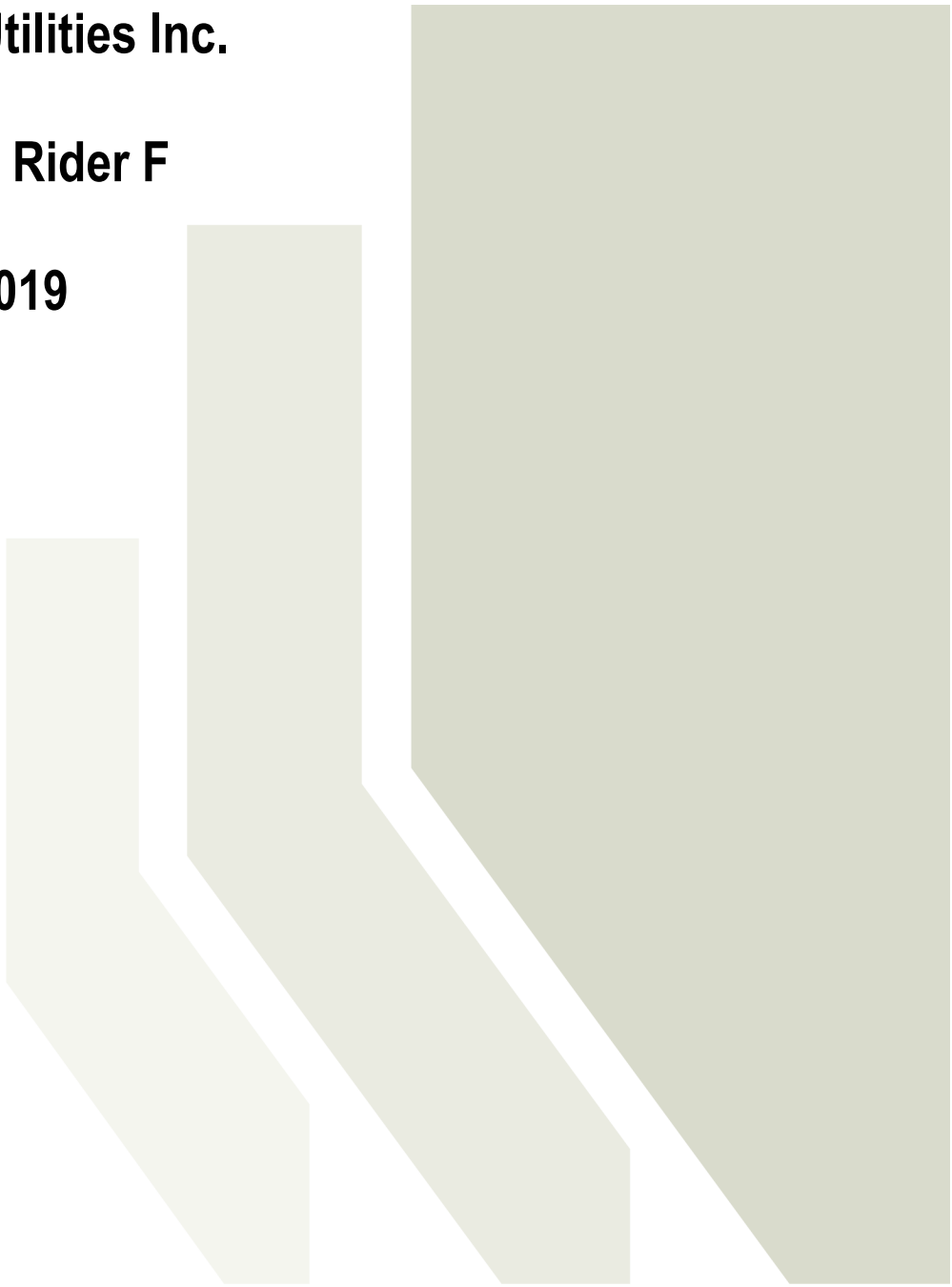




AltaGas Utilities Inc.

2019 Rate Rider F

July 25, 2019



Alberta Utilities Commission

Decision 24161-D01-2019

AltaGas Utilities Inc.

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Proceeding 24161

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1 Introduction

1. On December 19, 2018, AltaGas Utilities Inc. filed an application with the Alberta Utilities Commission for approval of its 2018 depreciation study.¹ Specifically, AltaGas requested approval of:

- The service life depreciation rates and net salvage rates proposed in the application for the 2018 to 2022 performance-based regulation (PBR) term, as recommended by AltaGas's external consultant, Concentric Advisors Canada ULC in AltaGas's 2018 depreciation study (depreciation expense);
- Collection, on an interim basis, of a 50 per cent placeholder of the forecast 2018 and 2019 depreciation expense aggregate shortfall by implementation of a Rate Rider F, effective March 1, 2019, until December 31, 2019 (Rider F request).²

2. The subject of this decision is the Rate Rider F request.

3. The Commission issued a notice of application on December 20, 2018, and requested that interested parties file a statement of intent to participate (SIP) by January 10, 2019.³ The Commission received SIPs from the Office of the Utilities Consumer Advocate (UCA) and the Consumers' Coalition of Alberta (CCA) on January 10, 2019.⁴

4. Upon reviewing the application and the SIPs, the Commission determined that the application would be considered by way of a basic written process and set a proceeding schedule for information requests (IRs) by letter dated January 11, 2019.⁵ The schedule was subsequently revised to reflect a UCA extension request,⁶ requests for additional process steps and a motion to compel full and adequate responses to IRs.⁷

5. While this proceeding is ongoing with respect to the depreciation expense component of the application, the Commission is prepared, based on the record to date, to provide its decision in respect of AltaGas's Rider F request.

¹ Exhibit 24161-X0001, AUI 2018 Depreciation Study Application, December 19, 2018.

² Exhibit 24161-X0001, application, paragraphs 16 and 18.

³ Exhibit 24161-X0007, Notice of application, December 20, 2018.

⁴ Exhibits 24161-X0008 and 24161-X0009, Statements of intent to participate, January 10, 2019.

⁵ Exhibit 24161-X0010, Process schedule, January 10, 2019.

⁶ Exhibit 24161-X0013, Revised process schedule.

⁷ Exhibit 24161-X0044, UCA submission on further process; Exhibit 24161-X0045, AltaGas submission on further process; and Exhibit 24161-X0046, CCA submission on further process.

2 Background

6. AltaGas's most recent previous depreciation study was completed in 2010, and an update to depreciation parameters and related depreciation expense was approved in Decision 2012-091⁸ as part of AltaGas's 2010-2012 general rate application Phase I.

7. Decision 20414-D01-2016 (Errata)⁹ included an optional provision for the distribution utilities to file separate depreciation-related applications during the first year of the 2018 to 2022 PBR term. Going-in rates would be adjusted effective January 1, 2018, on a prospective basis, to reflect any changes in approved depreciation parameters.

8. This application and the depreciation study were filed by AltaGas in accordance with the optional provisions of Decision 20414-D01-2016 (Errata). The application proposed an overall increase to depreciation expense based on the depreciation study. AltaGas requested approval of a placeholder for 50 per cent of the forecast 2018 and 2019 depreciation expense aggregate shortfall and to collect the placeholder amounts through the Rider F mechanism prior to the end of 2019. Rider F is used by AltaGas to recover a cost or revenue deficiency, or refund a cost or revenue surplus resulting from the difference between interim and final rates arising from Commission decisions or flow-through cost amounts.

9. In Decision 23898-D01-2018,¹⁰ the Commission approved the use of a Rider F mechanism by AltaGas for the duration of the 2018-2022 PBR term in the manner utilized in the 2013-2017 PBR term. In that decision, the Commission stated:

61. In Decision 23355-D02-2018,^[11] the Commission approved the continued use of the riders proposed by AltaGas for the duration of the 2018-2022 PBR term:

70. Unless directed otherwise by the Commission, these riders are approved for use during the 2018-2022 PBR term with the rider rates to be determined upon application to the Commission. For regulatory efficiency, the distribution utilities will not be required to re-apply for the use of any of these riders during the current PBR term apart from the applications to determine rider rates. The Commission may, however, review the need for a rider on its own initiative or upon request by a distribution utility or an intervener as part of an annual PBR rate adjustment filing, a rider rate application, or a standalone proceeding ... [footnote removed].

62. Consistent with the above, unless it proposes changes to the use of its riders, AltaGas is not required to reapply for the continued use of these riders in its subsequent annual PBR rate adjustment filings.

⁸ Decision 2012-091: AltaGas Utilities Inc., 2010-2012 General Rate Application – Phase I, Proceeding 904, Application 1606694-1, April 9, 2012.

⁹ Decision 20414-D01-2016: 2018-2022 Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Proceeding 20414, February 6, 2017, paragraph 70.

¹⁰ Decision 23898-D01-2018 (Errata): AltaGas Utilities Inc., 2019 Annual Performance-Based Regulation Rate Adjustment Filing, Proceeding 23898, January 11, 2019.

¹¹ Decision 23355-D02-2018: Rebasing for the 2018-2022 Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Second Compliance Proceeding, Proceeding 23355, October 10, 2018.

3 Rider F request

10. AltaGas has requested depreciation expense increases of \$7,943,378 (50.7 per cent) and \$8,621,320 (51.6 per cent) for 2018 and 2019, respectively, for a total of \$16,564,698.¹²

11. As described above, AltaGas requested approval of a 50 per cent placeholder with respect to the requested depreciation expense increases for 2018 and 2019 and to collect the placeholder amount through the Rider F mechanism on an interim basis. The proposed rider is in the amount of \$8,282,349, which is half of the applied-for depreciation expense shortfall over the two year period. As initially proposed, the proposed rider would be in effect over the period of March 1, 2019, to December 31, 2019.¹³ AltaGas subsequently revised its request for the rider to be in effect from August 1, 2019, to December 31, 2019.¹⁴

12. In response to a Commission IR, AltaGas explained that it requests this rider due to the magnitude of the increase in the applied-for depreciation expense and the material effect that its eventual collection may have on rates. AltaGas pointed to the rate effect on customers in the current year, the cumulative rate effect on customers in future years, concerns around intergenerational inequity, and the financial burden of uncollected revenues on AltaGas. It also noted that, at the time of that IR response, there has been a lag of over a year between the effective date of any depreciation rate changes approved in this application (January 1, 2018) and the eventual collection period. Without a rider, the full effect of any approved changes would be included in future AltaGas rates. Implementing a rider in 2019 would allow for better distribution of the rate increases and mitigate rate shock and volatility by reducing the cumulative effect on customer bills.¹⁵

13. AltaGas provided schedules showing bill effects and noted that the proposed collection of Rider F is consistent with the approach used in prior years. Specifically, AltaGas calculated the rider based on the approved 2019 distribution service revenues, excluding default supply provider administration fee revenues and flow-through commodity revenues and including the daily base fixed charge, the variable base energy charge, and the daily demand charge, as applicable. AltaGas allocated the proposed rider to customer classes based on the allocation method used for capital revenue requirements in its 2019 annual PBR rate filing.¹⁶

14. No submissions were received by interveners with respect to the Rider F request.

3.1 Commission findings

15. For the reasons that follow, the Commission is satisfied that it is in the public interest to collect part of the potential depreciation expense shortfall on an interim basis through a Rider F.

¹² Exhibit 24161-X0001, application, paragraph 12, Table 3-1.

¹³ Exhibit 24161-X0001, paragraphs 16-17.

¹⁴ On June 5, AltaGas responded to a Commission IR originally issued on February 14, 2019: Exhibit 24161-X0062, AUI-AUC-2019FEB14-024(c); Exhibit 24161-X0065, AUI-AUC-2019FEB14-024(c), Attachment 1 - 2019 Rider F Financial Schedules – August 1; and Exhibit 24161-X0066, AUI-AUC-2019FEB14-024(c), Attachment 2, August 1 2019, Rider F Rate Schedules.

¹⁵ Exhibit 24161-X0015, AUI Preliminary IR Responses to AUC, February 5, 2019, AUI-AUC-2019JAN30-002, PDF pages 2-3.

¹⁶ Exhibit 24161-X0015, AUI-AUC-2019JAN30-002, PDF pages 3-5; Exhibit 24161-X0022, AUI-AUC-2019JAN30-002(c) Attachment 1, February 5, 2019.

16. As previously noted, the last approved depreciation study for AltaGas was completed in 2010 and an update to depreciation parameters and related depreciation expense was approved in Decision 2012-091. The current application requests a substantial increase in depreciation expense over that previously approved; or, stated another way, asserts a material depreciation expense shortfall. The bill effects information provided by AltaGas in response to Commission IRs illustrates the effect on rates from collecting 50 per cent of the requested increase through the proposed Rider F. Having regard to all of the foregoing, the Commission is satisfied that there is the potential for a material effect on rates if the requested increase in depreciation expense is approved, in whole or in part. However, any such approval remains to be adjudicated in the current proceeding, where very divergent positions have been advanced by AltaGas and the interveners.

17. In these circumstances, to promote rate stability and help mitigate any potential rate shock while still acknowledging that the applied-for depreciation expense remains to be tested and determined during the balance of this proceeding, the Commission is satisfied that it is in the public interest to collect part of the potential depreciation expense shortfall on an interim basis. Accordingly, the Commission approves a Rider F that recovers 25 per cent of the applied-for 2018 and 2019 depreciation expense shortfall, on a placeholder basis. As a result, 25 per cent of the applied-for, combined 2018 and 2019 shortfalls will be collected through Rider F, effective August 1, 2019, to December 31, 2019. For the purposes of collection through Rider F, the Commission calculates 25 per cent of the above total depreciation expense amount of \$16,564,698 as \$4,141,175. AltaGas is directed to file, under this proceeding, a set of distribution rate schedules, including the Rider F schedule, by July 30, 2019, and to implement Rider F effective August 1, 2019.

18. A final decision for Proceeding 24161 is not anticipated to be issued before AltaGas files its 2020 annual PBR rate application in September of 2019. Further, the Commission has commenced a review of the method of accounting for new depreciation parameters and expense in rates under the 2018-2022 PBR plan.¹⁷ As a result, rate adjustments for AltaGas based on any approved changes to depreciation parameters in Proceeding 24161 may not be approved until late 2019 or early 2020. In these circumstances, and for the same reasons described above, the Commission considers that it is in the public interest to enable continued collection from AltaGas customers of part of the potential depreciation expense shortfall for the year 2020 on a placeholder basis. Continued collection, without the need for a further Rider F application, will further the objectives of rate stability, mitigation of potential rate shock and regulatory efficiency. Accordingly, the Commission has determined that a subsequent Rider F should be implemented, effective January 1, 2020, to December 31, 2020. AltaGas is directed to file Rider F rate schedules for collection of the 2020 shortfall, and Rider F financial schedules demonstrating the associated bill effects, with its September 2019 annual PBR rate adjustment filing to set rates for 2020. The 2020 Rider F schedules will reflect:

- (a) 25 per cent of the estimated 2020 depreciation expense amount, calculated using the same assumptions and methodologies that underlie the calculation of the 2018 and 2019 depreciation expense amounts in AltaGas's application in proceeding 24161;
- (b) Forecast 2020 billing determinants.

¹⁷ Proceeding 24609, Commission-initiated review of Decision 20414-D01-2016 (Errata) and Decision 22394-D01-2018 limited to the method of accounting for new depreciation parameters and expense in rates under the 2018-2022 performance-based regulation plan.

19. Upon the conclusion of Proceeding 24161 and any related proceedings, the Commission will provide further direction to AltaGas with respect to the continuation or adjustment of the quantum of the 2020 Rider F, or any other adjustments or directions necessary to reflect the final approved depreciation expense and subsequent determinations.

20. The Commission is satisfied that the rate class allocation methodology proposed by AltaGas for the Rider F 2018 and 2019 depreciation expense collection is acceptable in this instance because it is consistent with the allocation method approved in Decision 23898. AltaGas is directed to apply this rate class allocation method to the Rider F 2018, 2019 and 2020 depreciation expense collection.

21. In making these determinations, the Commission makes no comment with respect to the merits of the depreciation application or the proposed quantum of the depreciation expense.

4 Order

22. It is hereby ordered that:

- (1) AltaGas Utilities Inc. shall implement Rate Rider F, effective August 1, 2019, to December 31, 2019, to recover on a placeholder basis, 25 per cent of the estimated 2018 and 2019 depreciation expense shortfall, for a total amount of \$4,141,175, in accordance with the rate class allocation set out in the body of this decision.
- (2) AltaGas Utilities Inc. shall file on the Commission's e-Filing System, under Proceeding 24161, a set of 2019 distribution rate schedules, including the Rider F rate schedule identified in (1) above, by July 30, 2019.
- (3) AltaGas Utilities Inc. shall include in its September 2019 annual PBR rate adjustment filing to set rates for 2020, proposed 2020 Rider F rate schedules and Rider F financial schedules demonstrating the associated bill effects to recover, on a placeholder basis, 25 per cent of the estimated 2020 depreciation expense shortfall using the inputs and rate class allocation methodology as detailed in the body of this decision, effective for the period commencing January 1, 2020, and ending December 31, 2020.

Dated on July 25, 2019.

Alberta Utilities Commission

(original signed by)

Henry van Egteren
Panel Chair

(original signed by)

Carolyn Hutniak
Commission Member

(original signed by)

Bill Lyttle
Acting Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
AltaGas Utilities Inc. (AUI)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP
Consumers' Coalition of Alberta (CCA)

<p>Alberta Utilities Commission</p> <p>Commission panel</p> <ul style="list-style-type: none"> H. van Egteren, Panel Chair C. Hutniak, Commission Member B. Lyttle, Acting Commission Member <p>Commission staff</p> <ul style="list-style-type: none"> B. McNulty (Commission counsel) E. Galan (Commission Counsel) P. Howard B. Edwards C. Robertshaw A. Spurrell

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 these circumstances, to promote rate stability and help mitigate any potential rate shock while still acknowledging that the applied-for depreciation expense remains to be tested and determined during the balance of this proceeding, the Commission is satisfied that it is in the public interest to collect part of the potential depreciation expense shortfall on an interim basis. Accordingly, the Commission approves a Rider F that recovers 25 per cent of the applied-for 2018 and 2019 depreciation expense shortfall, on a placeholder basis. As a result, 25 per cent of the applied-for, combined 2018 and 2019 shortfalls will be collected through Rider F, effective August 1, 2019, to December 31, 2019. For the purposes of collection through Rider F, the Commission calculates 25 per cent of the above total depreciation expense amount of \$16,564,698 as \$4,141,175. AltaGas is directed to file, under this proceeding, a set of distribution rate schedules, including the Rider F schedule, by July 30, 2019, and to implement Rider F effective August 1, 2019. Paragraph 17
2. A final decision for Proceeding 24161 is not anticipated to be issued before AltaGas files its 2020 annual PBR rate application in September of 2019. Further, the Commission has commenced a review of the method of accounting for new depreciation parameters and expense in rates under the 2018-2022 PBR plan. As a result, rate adjustments for AltaGas based on any approved changes to depreciation parameters in Proceeding 24161 may not be approved until late 2019 or early 2020. In these circumstances, and for the same reasons described above, the Commission considers that it is in the public interest to enable continued collection from AltaGas customers of part of the potential depreciation expense shortfall for the year 2020 on a placeholder basis. Continued collection, without the need for a further Rider F application, will further the objectives of rate stability, mitigation of potential rate shock and regulatory efficiency. Accordingly, the Commission has determined that a subsequent Rider F should be implemented, effective January 1, 2020, to December 31, 2020. AltaGas is directed to file Rider F rate schedules for collection of the 2020 shortfall, and Rider F financial schedules demonstrating the associated bill effects, with its September 2019 annual PBR rate adjustment filing to set rates for 2020. The 2020 Rider F schedules will reflect:
 - (a) 25 per cent of the estimated 2020 depreciation expense amount, calculated using the same assumptions and methodologies that underlie the calculation of the 2018 and 2019 depreciation expense amounts in AltaGas’s application in proceeding 24161;
 - (b) Forecast 2020 billing determinants. Paragraph 18

3. The Commission is satisfied that the rate class allocation methodology proposed by AltaGas for the Rider F 2018 and 2019 depreciation expense collection is acceptable in this instance because it is consistent with the previously-approved allocation method. AltaGas is directed to apply this rate class allocation method to the Rider F 2018, 2019 and 2020 depreciation expense collection. Paragraph 20