



AltaGas Utilities Inc.

**2018 Depreciation Study Compliance Filing Pursuant to
Decision 24161-D03-2019**

March 25, 2020

Alberta Utilities Commission

Decision 25368-D01-2020

AltaGas Utilities Inc.

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Proceeding 25368

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1 Decision summary

1. In this decision, the Alberta Utilities Commission considers whether to approve AltaGas Utilities Inc.'s compliance with the Commission's directions issued in Decision 24161-D03-2019,¹ and AltaGas's request to amend Rider F for collection of the resulting deficiency. For the reasons outlined in this decision, the Commission finds that AltaGas has complied with all of the Commission's directions. As a result, the applied-for depreciation parameters and amended 2020 Rider F are approved.

2 Introduction and procedural background

2. In Decision 24161-D01-2019,² the Commission approved AltaGas to recover 25 per cent of its applied-for depreciation expense shortfall for 2018 and 2019, totalling \$4.1 million, on a placeholder basis, through a 2019 Rate Rider F from August 1 through December 31, 2019.

3. Also in Decision 24161-D01-2019, the Commission directed AltaGas to apply, in its 2020 annual performance-based regulation (PBR) rate adjustment filing, for a 2020 Rate Rider F to recover 25 per cent of the 2020 depreciation expense shortfall, on a placeholder basis, from January 1 through December 31, 2020. On December 17, 2019, the Commission issued Decision 24883-D01-2019,³ approving AltaGas's 2020 annual PBR rate adjustment filing, including its 2020 Rate Rider F.

4. On December 20, 2019, the Commission issued Decision 24161-D03-2019, in which the Commission approved a number of changes to AltaGas's depreciation parameters effective January 1, 2018.

5. Decision 24161-D03-2019 ordered AltaGas to file a compliance filing within 30 days of the release of the pending decision in Proceeding 24609 (Decision 24609-D01-2020).^{4 5}

¹ Decision 24161-D03-2019: AltaGas Utilities Inc., 2018 Depreciation Study, Proceeding 24161, December 20, 2019.

² Decision 24161-D01-2019: AltaGas Utilities Inc., 2019 Rate Rider F, Proceeding 24161, July 25, 2019.

³ Decision 24883-D01-2019: AltaGas Utilities Inc., 2020 Annual Performance-Based Regulation Rate Adjustment, Proceeding 24883, December 17, 2019.

⁴ Decision 24609-D01-2020: 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, Proceeding 24609, January 14, 2020.

⁵ Proceeding 24609 was initiated by the Commission to consider the method of accounting for new depreciation parameters and expense in rates under the 2018-2022 PBR term set out in Decision 20414-D01-2016 (Errata) and Decision 22394-D01-2018. The direction for AltaGas to file a compliance filing within 30 days of the release of Decision 24609-D01-2020 was in response to a request from AltaGas to delay the Decision 24161-D03-2019 until after the release of Decision 24609-D01-2020. AltaGas wanted the opportunity to consider the implications of the Proceeding 24609 decision for its 2018 depreciation study application. The Commission

Decision 24161-D03-2019 also included 10 directions to AltaGas, seven of which were to be addressed in the compliance filing. The other three directions are to be addressed by AltaGas in its next depreciation study.

6. On February 13, 2020, AltaGas submitted its compliance filing to the Commission.⁶ The Commission assigned Proceeding 25368 to the application, issued notice of the application on February 18, 2020, and invited any interested parties to register an intention to participate in the proceeding by March 3, 2020. No statements of intention to participate were received.

7. The Commission reviewed this filing pursuant to its notice-only process, as outlined in Commission Bulletin 2015-09.⁷ The record of this proceeding closed on March 5, 2020.⁸

8. 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.

3 Compliance with Commission directions

9. AltaGas's compliance filing to Decision 24161-D03-2019 was received within 30 days of the release of Decision 24609-D01-2020. Commission directions 1, 4, 5, 7, 8, 9 and 10 from Decision 24161-D03-2019 are the seven directions that pertain to this compliance filing. Directions 2, 3 and 6 from Decision 24161-D03-2019 are to be addressed in AltaGas's next depreciation study and accordingly are not considered in this decision.

10. The Commission's examination and findings respecting AltaGas's compliance with these directions are set out in the sections that follow. The directions are also summarized for convenience in [Appendix 2](#) to this decision.

3.1 Direction 1

11. The Commission issued the following direction:

27. AltaGas is directed to incorporate the depreciation rates reflective of the proposed changes to the depreciation parameters for these accounts in its compliance filing to this decision.⁹

12. In the compliance filing, AltaGas stated that it complied with this direction and provided a summary of the approved depreciation parameters for all accounts and corresponding

decided not to delay the release of the decision because it was not persuaded that providing AltaGas with the opportunity to consider the implications of the Commission's decision in Proceeding 24609 either required or was a basis for delaying the release of the decision in this proceeding. Instead, the Commission reasoned that any effect(s) that may arise from the decision in Proceeding 24609 could be dealt with in the compliance filing to Decision 24161-D03-2019 or another future proceeding.

⁶ Exhibits 25368-X0001 through 25368-X0005.

⁷ Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.

⁸ Exhibit 25368-X0009, AUC letter - Process and schedule.

⁹ Decision 24161-D03-2019, paragraph 27.

depreciation rates in Appendix A to the application.¹⁰ AltaGas also provided financial schedules showing the calculations incorporating the changes to depreciation rates and the effects on depreciation expense and revenue requirement for 2018, 2019, and 2020 in Appendix B to the application.¹¹

Commission findings

13. The Commission has reviewed the calculations in the financial schedules and resulting depreciation rates, and is satisfied that the calculations are accurate. Accordingly, the Commission finds that AltaGas has complied with Direction 1.

3.2 Direction 4

14. The Commission issued the following direction:

74. The Commission directs AltaGas, for 2018, 2019 and future years, to charge site remediation costs to operating costs and not to cost of removal where there are no related asset retirements occurring concurrently or within a reasonably foreseeable period of time (such as in the same fiscal year) and the existing assets continue to be used. Site remediation costs caused by assets that are either in the process of being retired or have been retired can still be charged to cost of removal. AltaGas is further directed to reflect this change for all accounts that include site remediation costs as part of net salvage, in its compliance filing to this decision.¹²

15. AltaGas stated that the site remediation costs were all associated with Account 46700 (Measuring & Regulating Station Equipment) which, in 2018 and 2019, totalled \$87,332. Of the \$87,332, \$15,006 were associated with assets that continue to be in use and, therefore, that amount had been charged to operating costs in 2019. The remaining \$72,326 are remediation costs associated with assets that have been retired in 2019 or earlier.

16. AltaGas also advised that these costs do not affect the 2017 notional rate base and depreciation expense and, therefore, have no impact on K-bar calculation mechanics.

17. In respect of future years, AltaGas said that, effective January 1, 2020, it has updated its procedures for all accounts to ensure only site remediation costs associated with assets that are either in the process of being retired or have been retired, will be included as part of cost of removal.¹³

Commission findings

18. The Commission is satisfied with AltaGas's response and finds that AltaGas has complied with this direction.

¹⁰ Exhibit 25368-X0001, application, paragraph 8 and Exhibit 25368-X0002, Appendix A - Summary Tables of Depreciation Rates.

¹¹ Exhibit 25368-X0003, Appendix B - 2018 Depreciation Study Compliance Filing - Financial Schedules.

¹² Decision 24161-D03-2019, paragraph 74.

¹³ Exhibit 25368-X0001, application, paragraphs 9-11.

3.3 Direction 5

19. The Commission issued the following direction:

78. The Commission directs AltaGas, in the compliance filing, to provide the amounts charged to cost of removal by allocation (and not actual costs) in each account, and the method of allocation used for the years 2016 through 2018.¹⁴

20. AltaGas explained that its practice for the allocation of cost of removal is based on project type. For projects involving the removal of existing assets from service with no corresponding asset replacement, 100 per cent of the actual costs incurred are recorded as cost of removal. For projects involving the removal of existing assets from service and a corresponding asset replacement, an allocation of actual costs incurred is recorded as cost of removal. For these project types, a cost estimate is prepared in support of the project, including all costs for both the removal and replacement components. As actual project costs are incurred, they are allocated to the removal and replacement components based on the proportionate share determined in the project cost estimate.¹⁵

21. AltaGas provided a table showing the amounts charged to cost of removal, by account and cost of removal method. This table is reproduced below:

Table 1. Cost of removal methods and amounts

Utility account	Cost of removal method	2016	2017	2018
46500 – Transmission Mains	Project estimation	\$1,550	\$47,705	\$71,805
	100% removal	-	-	1,777
		1,550	47,705	73,582
46700 – Transmission Measuring and Regulating Station Equipment	Project estimation	104,068	208,339	149,200
	100% removal	53,517	160,665	106,416
		157,585	369,004	255,616
47300 – Distribution Services	Project estimation	74,808	194,743	105,333
	100% removal	449,114	357,282	604,107
		523,922	552,025	709,440
47500 – Distribution Mains	Project estimation	234,116	403,310	240,321
	100% removal	51,212	57,638	114,132
		285,328	460,948	354,453
47700 – Distribution Measuring and Regulation Station Equipment	-	-	-	-
		\$968,386	\$1,429,683	\$1,393,091

Source: Exhibit 25368-X0001, 2018 Depreciation Study Compliance Filing pursuant to Decision 24161-D03-2019.

Commission findings

22. The Commission finds, for the purposes of this proceeding, that AltaGas has complied with this direction. However, the Commission considers that additional information will be

¹⁴ Decision 24161-D03-2019, paragraph 78.

¹⁵ Exhibit 25368-X0001, application, paragraph 12.

helpful in fully understanding the allocation of cost of removal for projects involving the removal of existing assets from service and a corresponding asset replacement. Accordingly, AltaGas is directed, as part of its next depreciation study, to provide additional detail, including:

- The percentage of actual costs, by account, that have been allocated based on the forecast project cost estimate to the replacement project and to the cost of removal;
- A description of all of the types of work or activities that are considered in forecasts to be charged to either replacement or removal activities and why they are considered to be replacement or removal activities. If any of the same type of work (such as excavation) is split in the forecast between both replacement and removal, explain why and how that is divided between them; and
- An explanation for why actual amounts are recorded and charged to replacement and removal based on the forecast costs rather than the actual costs.

3.4 Directions 7, 8, 9 and 10

23. In Decision 24161-D03-2019, the Commission issued the following specific directions regarding applied-for changes to AltaGas's depreciation parameters:

86. AltaGas provided an "illustrative scenario" that showed a gradualism-adjusted net salvage percentage for this account of negative 15 per cent, which the UCA [Office of the Utilities Consumer Advocate] supported. The Commission considers that the net salvage rate should be set at negative 15 per cent as it takes into account the increasing trend in net salvage activity, falls within the range of the peer comparators and also reflects the principles of gradualism and moderation. Accordingly, AltaGas is directed to incorporate a negative 15 per cent net salvage rate for this account in its compliance filing to this decision.¹⁶

...

90. AltaGas has offered insufficient support for its proposal to change the net salvage rate for Account 467 Transmission Measuring and Regulation Station Equipment from negative 35 per cent to negative 75 per cent or to explain the significant variance between its proposed net salvage rate of negative 75 per cent and the peer group rates of negative six per cent to negative seven per cent. AltaGas's request is denied and AltaGas is directed, in its compliance filing to this decision, to incorporate the currently approved negative 35 per cent net salvage rate for this account.¹⁷

...

95. The Commission agrees with Concentric that the net salvage activity for this account has an increasing trend (supporting an increase from the currently approved rate) but, as Concentric noted, a longer trend is preferable in order fully assess the implications on the net salvage rate. The Commission agrees with Bowman and Lee, and the UCA, that changing the rate from negative 30 per cent to negative 100 per cent may be considered extreme, and that the principles of gradualism and moderation should be taken into account. The Commission finds that a net salvage rate of negative 50 per cent, as recommended by the UCA and identified in AltaGas's illustrative scenario, is reasonable. It takes into account the change in net salvage activity as well as the principles of

¹⁶ Decision 24161-D03-2019, paragraph 86.

¹⁷ Decision 24161-D03-2019, paragraph 90.

gradualism and moderation, and is within the range of the peer group of Canadian utilities. AltaGas is directed to set the net salvage rate for this account at negative 50 per cent and to incorporate a negative 50 per cent net salvage rate for this account in its compliance filing to this decision.¹⁸

...

100. The Commission accepts that the net salvage activity for this account shows an increasing trend but, as AltaGas noted, a longer trend is preferable to fully assess the implications on the net salvage rate. Further, while the Commission accepts AltaGas's argument that inflationary pressures can cause an increase in the cost of retirements, a change from negative 10 per cent to negative 75 per cent would be considered extreme and gradualism and moderation should be taken into account. The Commission observes that the rate of negative 20 per cent suggested in the UCA evidence is close to the illustrative scenario provided by AltaGas that set the rate at negative 25 per cent in order to incorporate the influences of gradualism and moderation. The Commission finds that a net salvage rate of negative 25 per cent takes into account the upward trend in net salvage activity as well as gradualism and moderation. It also is within the range of the peer comparison of Canadian utilities. Accordingly, AltaGas is directed to set the net salvage rate for this account at negative 25 per cent and to incorporate a negative 25 per cent net salvage rate for this account in its compliance filing to this decision.¹⁹

24. As noted above, AltaGas provided a summary of the approved depreciation parameters for all accounts and corresponding depreciation rates in Appendix A to the application, and financial schedules showing the calculations incorporating the changes to depreciation rates and the effects on depreciation expense and revenue requirement for 2018, 2019, and 2020 in Appendix B to the application.²⁰

Commission findings

25. As discussed above in relation to Direction 1, the Commission has reviewed the calculations in the financial schedules and resulting depreciation rates, and is satisfied that the calculations are accurate and in accordance with the directions from Decision 24161-D03-2019. Accordingly, the Commission finds that AltaGas has complied with this direction.

4 Carrying costs

26. AltaGas requested carrying costs in the amount of \$181,755 in Appendix B to the application.²¹

Commission findings

27. The Commission has reviewed the carrying costs calculations in the financial schedules and is satisfied that the calculations are accurate and in accordance with Rule 023: *Rules Respecting Payment of Interest*. Accordingly, the carrying costs are approved as applied for.

¹⁸ Decision 24161-D03-2019, paragraph 95.

¹⁹ Decision 24161-D03-2019, paragraph 100.

²⁰ Exhibit 25368-X0001, application, paragraphs 14-17.

²¹ Exhibit 25368-X0003, Appendix B - 2018 Depreciation Study Compliance Filing - Financial Schedules, Schedule 1.4.

5 Revenue shortfall collection (Rate Rider F)

28. AltaGas advised that the updates to the depreciation parameters approved in Decision 24161-D03-2019 result in a revenue requirement shortfall of \$11.0 million for 2018, 2019 and 2020 collectively. With a total of \$6.4 million already approved for recovery through the 2019 Rate Rider F and 2020 Rate Rider F, as discussed above, AltaGas calculated the remaining shortfall to be collected as \$4.6 million, plus carrying costs of \$0.2 million, for a total of \$4.8 million.²²

29. AltaGas proposed to recover the remaining revenue requirement shortfall and carrying charges of \$4.8 million through an adjustment to its 2020 Rate Rider F from April 1 through December 31, 2020. AltaGas provided the amended 2020 Rate Rider F²³ and supporting detailed calculations²⁴ for the remaining revenue requirement shortfall and carrying charges, and the incremental recovery percentage of distribution charges for collection. To determine allocation to rate classes, AltaGas applied the same rate class allocation methodology as approved for its 2020 Rate Rider F in Decision 24883-D01-2019.

30. AltaGas submitted that the proposed incremental increase to the 2020 Rate Rider F results in bill impacts for each customer class that are below 10 per cent, both with and without the commodity included.²⁵ AltaGas also submitted that its proposed approach mitigates the possibility of rate shock in 2021 rates should the \$4.8 million revenue requirement shortfall and carrying costs be deferred to 2021 rates instead.²⁶

Commission findings

31. The Commission has reviewed the amended Rate Rider F and the supporting calculations and is satisfied that they are accurate. The Commission also approves the methodology for recovery of the deficiency, using the same rate class allocation methodology as approved for its 2020 Rate Rider F in Decision 24883-D01-2019. Accordingly, the Commission approves the amended 2020 Rider F, as applied for.

²² Exhibit 25368-X0003, Appendix B - 2018 Depreciation Study Compliance Filing - Financial Schedules, Schedule 1.0.

²³ Exhibit 25368-X0005, Appendix D – 2020 Rate Rider F Adjustment Rate Schedules.

²⁴ Exhibit 25368-X0004, Appendix C - 2020 Rate Rider F Adjustment Financial Schedules, Schedule 1.0.

²⁵ Exhibit 25368-X0004, Appendix C - 2020 Rate Rider F Adjustment Financial Schedules, schedules 2.0 and 2.1

²⁶ Exhibit 25368-X0001, application, paragraphs 23-28.

6 Order

32. It is hereby ordered that:

- (1) AltaGas Utilities Inc. shall implement the amended 2020 Rider F, as set out in [Appendix 4](#), effective April 1, 2020, through December 31, 2020.

Dated on March 25, 2020.

Alberta Utilities Commission

(original signed by)

Henry van Egteren
Vice-Chair

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
AltaGas Utilities Inc. (AltaGas)

Alberta Utilities Commission
Commission panel H. van Egteren, Vice-Chair
Commission staff P. Howard A. Spurrell

Appendix 2 – Commission directions from Decision 24161-D03-2019[\(return to text\)](#)

	Direction	Reference paragraph from Decision 24161-D03-2019	Reference to AltaGas’s response in the application, Exhibit 25368-X0001
1.	AltaGas is directed to incorporate the depreciation rates reflective of the proposed changes to the depreciation parameters for these accounts in its compliance filing to this decision.	paragraph 27	paragraph 8
4.	The Commission directs AltaGas, for 2018, 2019 and future years, to charge site remediation costs to operating costs and not to cost of removal where there are no related asset retirements occurring concurrently or within a reasonably foreseeable period of time (such as in the same fiscal year) and the existing assets continue to be used. Site remediation costs caused by assets that are either in the process of being retired or have been retired can still be charged to cost of removal. AltaGas is further directed to reflect this change for all accounts that include site remediation costs as part of net salvage, in its compliance filing to this decision.	paragraph 74	paragraphs 9-11
5.	The Commission directs AltaGas, in the compliance filing, to provide the amounts charged to cost of removal by allocation (and not actual costs) in each account, and the method of allocation used for the years 2016 through 2018.	paragraph 78	paragraphs 12-13
7.	AltaGas provided an “illustrative scenario” that showed a gradualism-adjusted net salvage percentage for this account of negative 15 per cent, which the UCA supported. The Commission considers that the net salvage rate should be set at negative 15 per cent as it takes into account the increasing trend in net salvage activity, falls within the range of the peer comparators and also reflects the principles of gradualism and moderation. Accordingly, AltaGas is directed to incorporate a negative 15 per cent net salvage rate for this account in its compliance filing to this decision.	paragraph 86	paragraph 14

Direction	Reference paragraph from Decision 24161-D03-2019	Reference to AltaGas's response in the application, Exhibit 25368-X0001
<p>8. AltaGas has offered insufficient support for its proposal to change the net salvage rate for Account 467 Transmission Measuring and Regulation Station Equipment from negative 35 per cent to negative 75 per cent or to explain the significant variance between its proposed net salvage rate of negative 75 per cent and the peer group rates of negative six per cent to negative seven per cent. AltaGas's request is denied and AltaGas is directed, in its compliance filing to this decision, to incorporate the currently approved negative 35 per cent net salvage rate for this account.</p>	<p>paragraph 90</p>	<p>paragraph 15</p>
<p>9. The Commission agrees with Concentric that the net salvage activity for this account has an increasing trend (supporting an increase from the currently approved rate) but, as Concentric noted, a longer trend is preferable in order fully assess the implications on the net salvage rate. The Commission agrees with Bowman and Lee, and the UCA, that changing the rate from negative 30 per cent to negative 100 per cent may be considered extreme, and that the principles of gradualism and moderation should be taken into account. The Commission finds that a net salvage rate of negative 50 per cent, as recommended by the UCA and identified in AltaGas's illustrative scenario, is reasonable. It takes into account the change in net salvage activity as well as the principles of gradualism and moderation, and is within the range of the peer group of Canadian utilities. AltaGas is directed to set the net salvage rate for this account at negative 50 per cent and to incorporate a negative 50 per cent net salvage rate for this account in its compliance filing to this decision.</p>	<p>paragraph 95</p>	<p>paragraph 16</p>

Direction	Reference paragraph from Decision 24161-D03-2019	Reference to AltaGas's response in the application, Exhibit 25368-X0001
<p>10. The Commission accepts that the net salvage activity for this account shows an increasing trend but, as AltaGas noted, a longer trend is preferable to fully assess the implications on the net salvage rate. Further, while the Commission accepts AltaGas's argument that inflationary pressures can cause an increase in the cost of retirements, a change from negative 10 per cent to negative 75 per cent would be considered extreme and gradualism and moderation should be taken into account. The Commission observes that the rate of negative 20 per cent suggested in the UCA evidence is close to the illustrative scenario provided by AltaGas that set the rate at negative 25 per cent in order to incorporate the influences of gradualism and moderation. The Commission finds that a net salvage rate of negative 25 per cent takes into account the upward trend in net salvage activity as well as gradualism and moderation. It also is within the range of the peer comparison of Canadian utilities. Accordingly, AltaGas is directed to set the net salvage rate for this account at negative 25 per cent and to incorporate a negative 25 per cent net salvage rate for this account in its compliance filing to this decision.</p>	<p>paragraph 100</p>	<p>paragraph 17</p>

Appendix 3 – 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, for the purposes of this proceeding, that AltaGas has complied with this direction. However, the Commission considers that additional information will be helpful in fully understanding the allocation of cost of removal for projects involving the removal of existing assets from service and a corresponding asset replacement. Accordingly, AltaGas is directed, as part of its next depreciation study, to provide additional detail, including:
 - The percentage of actual costs, by account, that have been allocated based on the forecast project cost estimate to the replacement project and to the cost of removal;
 - A description of all of the types of work or activities that are considered in forecasts to be charged to either replacement or removal activities and why they are considered to be replacement or removal activities. If any of the same type of work (such as excavation) is split in the forecast between both replacement and removal, explain why and how that is divided between them; and
 - An explanation for why actual amounts are recorded and charged to replacement and removal based on the forecast costs rather than the actual costs. paragraph 22

Appendix 4 – 2020 Rate Rider F adjustment rate schedule[\(return to text\)](#)

RATE RIDER F	2020 DEFICIENCY RIDER
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Description:

Rate Rider F - 2020 Deficiency Rider, applies to all distribution service customers' actual billed distribution charges, 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 affected.

Rate:

2020 Deficiency Rider Percentages:

Rate Class	Deficiency Percentage
Rate 1/11	11.26%
Rate 2/12	13.56%
Rate 3/13	11.69%
Rate 4/14	12.09%

Application:

2020 Deficiency – Rate Rider F will be applied from April 1 to December 31, 2020, inclusive.

EFFECTIVE DATE: April 1, 2020		Page 1 of 1 RIDER F
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AltaGas Utilities Inc.

2018 Depreciation Study Compliance Filing