

Bulletin RUB 2005 – 01

September 1, 2005

Grant Funding Policies and Holdbacks for Non-Compliance

Alberta's rural gas co-ops are regulated under the *Gas Distribution Act* and the *Rural Utilities Act*, that stipulate the standards under which natural gas co-ops must operate both from an operational and a business rules perspective. In addition, the department has established policies and guidelines respecting grants issued under the Alberta Agriculture, Food and Rural Development Grant Regulation authorized under the Government Organization Act.

Since the program began in 1973, the Rural Utilities Branch has adopted various measures to encourage distributors to comply with the standards for safe operation of their systems, and the proper administration of their business and the policies established for the orderly processing of grants. The Federation has also provided significant input and assistance particularly relating to safe operation of distribution systems.

Although distributors have matured and made significant strides towards running their business in a professional and safe manner, we continue to see areas that need improving. These include acquisition of easements, submission of as-builts, filing of annual returns, and improved operations and maintenance practices.

In the past, we have adopted a practice of withholding grant funds to encourage compliance with regulations and policies. This has been primarily directed towards easements and as-built submissions. To date, nearly \$300,000 in grant funds is being withheld. After bringing these issues to the attention of the Chairman of each Board of Director and through zone meetings, activity immediately increased with some positive results. However, six months later, these efforts have since eased off and we are again faced with a similar situation.

In an effort to seek continual improvement, we have reviewed our policies with respect to grant holdbacks. As a result of the review, we will be making a number of policy changes that will impact how grants are paid but not impact how much grants the distributor is eligible to receive.

Policy changes are as follows:

1. Reduce interim grant payments on eligible services and gas supply upgrades from 75 percent to 50 percent. This amendment will address two issues:

- a. Reduce grant overpayments. Advance grants for some distributors are greater than the entitlement for the entire project leaving them in an over grant situation. This situation occurs for a number of reasons including final costs coming in lower than expected, customer cancellations, or inability to construct the service due to lack of necessary equipment or unavailability of a contractor. This over grant is typically recovered in subsequent years but for some, it may take several years to balance out.
- b. Provide a greater amount of grant funds that can be held back to encourage compliance with regulatory and policy requirements.

This adjustment will be effective for the 2005 construction season.

2. Holdbacks will be extended to address issues such as lack of easements, poor operating and maintenance practices, non-submission of as-built plans or financial documents supporting grant applications, and failure to submit annual returns.

In conjunction with the Federation of Alberta Gas Co-ops, a set of criteria will be developed for holding back grant funds for non-compliance with proper operating and maintenance practices. It is expected that details of these criteria will be announced near the end of October 2005.

For the other areas, the Rural Utilities Branch has established new criteria for grant holdbacks. These criteria are outlined in the attached appendix.

Implementation of the new criteria for all grant holdbacks will be effective April 1, 2006.

3. The existing policy respecting forfeiture of grants for non-compliance within a one-year time frame will now be enforced. All distributors will have until December 31, 2006 to address known and reported deficiencies. Failure to do so will result in the forfeiture of any currently held grants. Any new infractions will result in new holdbacks and distributors will have one year from the time these funds have been withheld to rectify the deficiencies.

Individual gas co-ops will soon receive a more detailed letter outlining current deficiencies and the value of grants that are at risk of forfeiture.

Questions regarding this bulletin should be directed to Terry Holmes at (780) 427-0134 or email Terry.Holmes@gov.ab.ca.

Terry Holmes, Director
Rural Utilities

Appendix

Grant Holdback Criteria

Easements

\$1,000 for each missing utility right of way.

Late filing of As-Builts

100 percent of final grant.

If submission has not been received prior to commencement of next construction season, no advance grants will be issued until the submission has been received and it has been verified to be complete and accurate.

Late filing of Annual Return

100 percent of final grant.

If annual return has not been received prior to commencement of next construction season, no advance grants will be issued until the annual return has been received.