



ATCO Gas and Pipelines Ltd.

**2013 PBR Capital Tracker Refiling and True-up and
2014-2015 PBR Capital Tracker Forecast**

March 19, 2015

Alberta Utilities Commission

Decision 3267-D01-2015

ATCO Gas and Pipelines Ltd.

2013 PBR Capital Tracker Refiling and True-up and

2014-2015 PBR Capital Tracker Forecast

Proceeding 3267

Application 1610634-1

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Fifth Avenue Place, Fourth Floor, 425 First Street S.W.

Calgary, Alberta

T2P 3L8

Telephone: 403-592-8845

Fax: 403-592-4406

Website: www.auc.ab.ca

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1 Introduction

1. In Decision [2013-435](#),¹ the Commission directed ATCO Gas and Pipelines Ltd. (ATCO Gas or AG) to submit 2014-2015 capital tracker filing applications by March 1, 2014, and to submit their respective 2013 capital tracker refiling and true-up applications by May 15, 2014. On December 23, 2013, the Commission granted the ATCO companies' request to merge the 2014 and 2015 forecast capital tracker applications into the 2013 capital tracker refiling and true-up applications.
2. On June 3, 2014, ATCO Gas filed an application with the Alberta Utilities Commission requesting approval of certain capital projects for capital tracker treatment in 2014 and 2015, along with a refiling of its 2013 capital tracker application and true-up application. ATCO Gas further requested that the associated revenue requirement for the capital tracker projects would be included, in the applicable year, in the K factor component of the performance-based regulation (PBR) rate formula approved in Decision [2012-237](#).² This application, herein referred to as the "2014-2015 capital tracker and 2013 true-up application," was assigned Proceeding 3267.
3. On June 3, 2014, the Commission issued a notice of application with respect to ATCO Gas's application that required interested parties to submit a statement of intent to participate (SIP) by June 13, 2014. In their SIPs, parties were to indicate whether they supported or objected, to the application, reasons for their positions, and the need for further process and the supporting rationale. The Commission received SIPs from FortisAlberta Inc. (Fortis), AltaGas Utilities Inc. (AUI), ATCO Electric, the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA) and The City of Calgary (Calgary).
4. By letter dated May 28, 2014, ATCO Electric requested consideration of its application by way of a separate proceeding from ATCO Gas. This request was granted by the Commission on May 30, 2014.
5. After reviewing the application and the SIPs, the Commission determined that the application would be considered by way of a full process proceeding including information requests (IRs) on the application, intervener evidence, IRs on intervener evidence, rebuttal evidence, an oral hearing, argument and reply argument. By letter dated June 17, 2014, the

¹ Decision 2013-435: Performance-Based Regulation, 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

² Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012.

Commission set out a process schedule for ATCO Gas's 2014-2015 capital tracker and 2013 true-up application.³

6. On June 24, 2014, ATCO Gas submitted an amendment to its application⁴ in compliance with certain directions given to ATCO Gas by the Commission in Decision 2014-155.⁵ In this decision ATCO Gas was directed to reduce its customers contributions for its rural customer extensions, which resulted in an increase in investment in rate base. ATCO Gas included the adjustments and resulting K factor in the amendment to this application.

7. On November 10, 2014 ATCO Gas submitted an errata to its application⁶ which included two attachments detailing corrections to certain sections of its evidence and K factor calculations. ATCO Gas proposed to deal with the corrections to its K factor in either the compliance filing or the capital tracker true-up process.

8. During the hearing, the Commission requested ATCO Gas to provide further information on the cost of delaying its SMR projects. This resulted in an additional round of IRs from the Commission to ATCO Gas on December 1, 2015. ATCO Gas responded to these additional IR's on December 5, 2015.

9. The Commission considers the record for this proceeding to have closed on December 19, 2014, when reply arguments were filed. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of Proceeding 3267, as well as and the record for Decision 2013-435 and Decision 2011-450.⁷ Accordingly, reference in this decision to specific parts of the records 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 records with respect to a particular matter.

2 Background

10. On September 12, 2012, the Commission issued Decision 2012-237, approving PBR plans for the distribution utility services of certain Alberta electric and gas companies, including ATCO Gas. The PBR plans were approved for a five-year term commencing January 1, 2013. PBR replaces traditional cost-of-service regulation as the annual rate-setting mechanism for distribution utility rates.

11. As set out in Decision 2012-237, the PBR framework provides a formula mechanism for the annual adjustment of rates for those companies under an approved PBR plan. In general, the rates are adjusted annually by means of an indexing mechanism that tracks the rate of inflation (I) relevant to the prices of inputs the companies use less an offset (X) to reflect the productivity improvements the company can be expected to achieve during the PBR plan period. As a result,

³ Exhibit 26.01, AUC letter – Process and schedule, June 17, 2014.

⁴ Exhibit 27.01, application amendment, June 6, 2014.

⁵ Decision 2014-155: ATCO Gas, a division of ATCO Gas and Pipelines Ltd., Rural Pool Customer Connection Charge, Proceeding 2854, Application 1609962-1, June 5, 2014.

⁶ Exhibit 65.01, ATCO Gas application errata, November 10, 2014.

⁷ Decision 2011-450: ATCO Gas (a Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase I, Proceeding 969, Application 1606822-1, December 5, 2011.

with the exception of specifically approved adjustments, a utility's revenues are no longer linked to its costs. Companies subject to a PBR regime must manage their businesses and service obligations with the revenues derived under the PBR indexing mechanism and adjustments provided for in the formula. The PBR framework is intended to provide incentives for productivity increases and cost savings similar to those operating in competitive markets.

12. A company may apply for approval for certain rate adjustments to enable the recovery of specific costs where it can be demonstrated that the costs cannot be recovered under the I-X mechanism and where certain other criteria have been satisfied. These possible adjustments include an adjustment to fund necessary capital expenditures (a K factor), an adjustment for certain flow-through costs that should be recovered from, or refunded to, customers directly (a Y factor), or an adjustment to account for the effect of material, exogenous events for which the company has no other reasonable cost recovery or refund mechanism within the PBR plan (a Z factor).

13. In Decision 2012-237, the Commission determined that a mechanism to fund certain capital-related costs may be required under the approved PBR plans.⁸ This supplemental funding mechanism was referred to in Decision 2012-237 as a "capital tracker" with the revenue requirement associated with approved amounts to be collected from ratepayers by way of a "K factor" adjustment to the annual PBR rate setting formula.

14. At paragraph 592 of Decision 2012-237, the Commission set out three criteria that any capital project or program would have to satisfy in order to receive capital tracker treatment:

- (1) The project must be outside of the normal course of the company's ongoing operations.
- (2) Ordinarily, the project must be for replacement of existing capital assets or undertaking the project must be required by an external party.
- (3) The project must have a material effect on the company's finances.

15. Further, at paragraph 593 of Decision 2012-237, the Commission indicated that the party recommending the capital tracker must demonstrate that all of the criteria have been satisfied in order for a capital project or program to receive consideration as a capital tracker.

16. The implementation and application of the above capital tracker criteria were considered as part of the 2013 capital trackers Proceeding 2131, leading to Decision 2013-435. The Commission indicated that the implementation methodology established in that decision will be used not only to evaluate the capital tracker projects or programs proposed by the parties for 2013, but also for subsequent capital tracker applications throughout the PBR term.⁹

17. With respect to the first capital tracker criterion, the Commission concluded that, in general, in order for a capital project or program to be considered outside of the normal course of the company's ongoing operations, the increase in associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for this project or program. Accordingly, the Commission found

⁸ Decision 2012-237, paragraph 586.

⁹ Decision 2013-435, paragraph 120.

that the concept of normal course is mainly a financial and accounting consideration, rather than strictly an engineering consideration. The Commission referred to this comparison of revenues as the “accounting test” under Criterion 1. At the same time, the Commission indicated an engineering study and a business case will aid the Commission in assessing whether a project or program proposed for capital tracker treatment is (i) required to provide utility service at adequate levels and, if so, (ii) that the actual scope, level, timing and costs of a completed project are prudent or if the forecast scope, level and costs of a project that has not yet been completed are reasonable. The Commission referred to this assessment as the “project assessment” under Criterion 1. Therefore, the applicant must satisfy the Commission’s requirements for both the accounting test and the project assessment in order to satisfy the requirements of Criterion 1.¹⁰

18. Regarding the accounting test component of Criterion 1, the Commission determined that this test should be based on the project net cost approach, under which the revenue generated under the I-X mechanism for each capital project (or capital program or project category) is compared to the forecast revenue requirement associated with that capital project (or capital program or project category) in a PBR year. No consideration of operating and maintenance costs or savings and potential productivity offsets above those implied by the approved X factor are required for the accounting test.

19. For purposes of the project assessment, the Commission determined that each project or program proposed for capital tracker treatment must generally be supported by a business case and an engineering study. However, the Commission recognized that in some circumstances an engineering study may not be required. In Section 10.2 of Decision 2013-435, the Commission found that for the purpose of the project assessment, a project or program proposed for capital tracker treatment typically should address the following:

- a. The rationale for the project, including the nature, scope, location, timing and cost of the project.
- b. Any context for the project, which may include related past, present and future plans (e.g., for multi-year capital expenditures).
- c. Evidence demonstrating that in the absence of the proposed capital expenditures, deterioration in service quality and safety would result.
- d. Qualitative and, to the extent possible, quantitative descriptions of the service quality and safety risks addressed by the project.
- e. Evidence that the capital project could not have been undertaken in the past as part of a prudent capital maintenance and replacement program.
- f. A discussion of any reasonable alternatives, including the rationale for recommending the proposed solution.
- g. A detailed forecast of costs for the project or project components, in sufficient detail to allow an evaluation of the reasonableness of the forecast.
- h. A comparison of actual expenditures to forecast expenditures on similar projects over at least the previous five years, if available, including an explanation of any differences.
- i. With respect to proposed capital trackers, an explanation of any differences between the forecast costs of projects proposed for capital tracker treatment and the actual or updated forecast costs of similar projects undertaken in the prior year. This explanation should provide a breakdown of the project costs that

¹⁰ Decision 2013-435, paragraphs 149-150.

includes both units and costs-per-unit on a forecast and actual or updated forecast basis.

- j. With respect to the true-up of capital tracker projects, an explanation of any differences between the forecast costs of projects approved for capital tracker treatment and the actual cost of these projects undertaken in the prior year. This explanation should provide a breakdown of the project costs that includes both units and costs-per-unit on a forecast and actual basis.¹¹

20. At paragraph 615 of Decision 2012-237, the Commission indicated that a company may choose to undertake a capital investment prior to applying for capital tracker treatment in the subsequent annual capital tracker filing. The Commission further clarified at paragraph 48 of Decision 2013-435:

48. It was acknowledged by the Commission that superior incentives for capital trackers would result if the companies were required to spend money on capital expenditures prior to receiving approval for capital tracker recovery of the expenditures. However, given the lack of experience with the capital tracker mechanism, for the first generation PBR plans, it was determined that the companies will be permitted to apply for capital trackers on a forecast basis. The approved forecast cost of a capital tracker project will be included in rates on an interim basis and will be subject to a true-up to prudently incurred actual expenditures, after the project is completed. The true-up process will test the prudence of the actual capital expenditures and imprudent expenditures will be subject to disallowance. As a result, the capital tracker mechanism retains some efficiency incentives due to the risk of regulatory disallowances in the true-up process if expenditures are not prudently incurred. The true-up mechanism with a prudence review also mitigates somewhat the incentive for companies to overstate the initial capital tracker forecasts. Nonetheless, the companies remained free to incur expenditures prior to applying for capital tracker approval. [footnotes removed]

21. With respect to Criterion 2, in Decision 2013-435, the Commission clarified that, in addition to asset replacement projects and projects required by an external party, in principle, a growth-related project will satisfy the requirements of Criterion 2 where it can be demonstrated that customer contributions, together with incremental revenues allocated to the project on some reasonable basis, when added to the revenue provided under the I-X mechanism, are insufficient to offset the revenue requirement associated with the project in a PBR year.¹² Criterion 2 also permits consideration of certain projects for capital tracker treatment that do not fall into any of the growth-related, asset replacement or external party related categories.

22. Under Criterion 3, the Commission determined that applying a materiality threshold to that portion of the revenue requirement for a project that is not funded under the I-X mechanism is warranted. The Commission established a two-tier materiality threshold. The first tier of the materiality threshold, a “four basis point threshold,” is to be applied at a project level (grouped in the manner approved by the Commission). The second tier of the materiality threshold, a “40 basis point threshold,” is to be applied to the aggregate revenue requirement proposed to be recovered by way of all capital trackers.

¹¹ Decision 2013-435, paragraph 1092.

¹² Decision 2013-435, paragraph 309.

23. Additionally, the Commission recognized the significance of the grouping of projects proposed for capital tracker treatment when it stated in paragraph 601 of Decision 2012-237:

601. ... The Commission also considers that it would not be suitable to group together several dissimilar projects into a single large project to give the appearance of materiality. However, a number of smaller related items required as part of a larger project might qualify for capital tracker treatment.

24. In Decision 2013-435, the Commission further elaborated that grouping of projects will require close scrutiny, since it will have a direct effect on the results of the accounting test and the project assessment under Criterion 1, as well as the assessment of materiality under Criterion 3. The Commission determined that the reasonableness of the grouping of capital projects is best assessed on a case-by-case basis for each individual company. The Commission indicated that it will require each company to provide a justification for its proposed grouping of projects for capital tracker treatment.¹³

25. In Section 4.4 of Decision 2013-435, the Commission set out the K factor calculation methodology. The Commission determined that basing the K factor calculations on the incremental revenue requirement amounts (i.e., above the amounts provided under the I-X mechanism) for each project or program proposed for capital tracker treatment, as is done under the project net cost approach, is commensurate with the Commission's definition of outside the normal course of the company's ongoing operations. Specific elements of the approved K factor calculation methodology are further discussed in Section 11 of this decision, which deals with ATCO Gas's 2013, 2014 and 2015 K factor calculations.

26. Since ATCO Gas did not use a project net cost approach in its 2013 capital tracker application, in Section 7.5 of Decision 2013-435, the Commission did not approve any of the 2013 projects proposed by ATCO Gas for capital tracker treatment and directed a refiling of the 2013 capital tracker application. The Commission stated the following:

701. ... In sections 6.2.2 and 6.4 above, the Commission determined that since ATCO Gas did not use a project net cost approach in its 2013 capital tracker application, the Commission is unable to determine whether its programs proposed for capital tracker treatment satisfy the accounting test requirement of Criterion 1 and the materiality test under Criterion 3. Accordingly, the Commission does not approve any of the projects proposed by ATCO Gas for capital tracker treatment at this time.

.....

703. Specifically, ATCO Gas is directed, based on a project net cost approach, to demonstrate that each of its projects and programs proposed for capital tracker treatment satisfies the accounting test requirement of Criterion 1 and the materiality test under Criterion 3. ATCO Gas is also directed to calculate its K factor amount using the project net cost approach in accordance with the Commission-approved method set out in Section 4.4 of this decision. This application should include material sufficient to address the Commission's three capital tracker criteria as explained and applied in this decision.

¹³ Decision 2013-435, paragraphs 403 and 406.

27. With respect to the true-up of 2013 capital tracker projects, the Commission stated the following:

975. ... the March 1st capital tracker application shall true-up the costs of projects that have been completed since the prior year's capital tracker filing together with sufficient information to permit a prudence review of these completed projects. To facilitate a prudence review of a project, the company must submit information showing that it has completed the project in the most cost effective manner possible. This information will include the results of competitive bidding processes, comparisons of in-house resources to external resources, and any other evidence that may be of assistance in demonstrating the prudence of the expenditures.¹⁴

3 Commission process for reviewing 2013-2015 capital tracker applications

28. In Decision 2013-435, the Commission did not approve any of the projects proposed by ATCO Gas for capital tracker treatment for 2013 at that time because ATCO Gas did not use a project net cost approach in its 2013 capital tracker forecast application. Accordingly, ATCO Gas was directed to use a project net cost approach to satisfy the requirements of criteria 1 and 2, and to calculate the K factor amount.¹⁵ However, in that decision, the Commission did consider, for purposes of providing additional guidance on the programs and projects applied for, whether those programs and projects were properly grouped and complied with the requirements of the project assessment component of Criterion 1 and the requirements of Criterion 2. As a result of this project assessment, the Commission accepted the need for some projects put forward in ATCO Gas's 2013 capital tracker forecast application to maintain service quality at adequate levels.

29. In the remainder of this decision, the Commission assesses the company's 2013 refiling and true-up and 2014-2015 forecast capital tracker requests. With respect to the true-up of the 2013 capital tracker projects, the Commission stated that the application

975. ... shall true-up the costs of projects that have been completed since the prior year's capital tracker filing together with sufficient information to permit a prudence review of these completed projects. To facilitate a prudence review of a project, the company must submit information showing that it has completed the project in the most cost effective manner possible. This information will include the results of competitive bidding processes, comparisons of in-house resources to external resources, and any other evidence that may be of assistance in demonstrating the prudence of the expenditures.¹⁶

30. Consistent with these determinations, the Commission considers that for the purposes of the true-up of the 2013 capital tracker projects for which the Commission confirmed the need as part of its project assessment in Decision 2013-435, if there is no evidence on the record of the true-up proceeding demonstrating that a project was not required in 2013, then there is no need to demonstrate that a project was needed in order to provide utility service at adequate levels in 2013. However, the second part of the project assessment under Criterion 1 is still required so that the Commission can be satisfied that the scope, level and timing of each project was prudent, and the actual costs of the project were prudently incurred.

¹⁴ Decision 2012-237, paragraph 975.

¹⁵ Decision 2013-435, paragraph 703.

¹⁶ Decision 2012-237, paragraph 975.

31. The Commission also considers that for the purposes of the true-up of the 2013 capital tracker projects or programs for which the Commission undertook the assessment against the Criterion 2 requirements in Decision 2013-435, unless the driver for the project or program has changed, there is no need to undertake a reassessment against the Criterion 2 requirements. However, the Commission will undertake an assessment with respect to Criterion 3.

32. For any new projects in 2013 not previously evaluated in Decision 2013-435, the Commission will undertake assessments with respect to all three criteria for capital tracker treatment, including the need for the project.

33. With respect to forecast capital projects for 2014 and 2015 for which the company is seeking capital tracker treatment, the Commission will generally undertake assessments with respect to all three criteria for capital tracker treatment. However, in those instances where a project or program is part of an ongoing, multi-year program, or if a project or program is of an annual, recurring nature (e.g., relocations) for which the need has been previously approved by the Commission for purposes of capital tracker treatment, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. However, the Commission will undertake assessments with respect to all remaining aspects of the three criteria for capital tracker treatment.

Section 4 of this decision provides an overview of the projects or programs for which ATCO Gas is seeking capital tracker treatment in 2013, 2014 and 2015. The evaluation of ATCO Gas's proposed capital project groupings is set out in Section 5. Section 6.3 deals with ATCO Gas's decision to defer some expenditures on capital tracker projects planned for 2013 and to substitute some projects planned for 2013 with others. The assessment of how ATCO Gas's projects or programs proposed for capital tracker treatment satisfy Criterion 1 is set out in sections 6 and 7 dealing with the project assessment and the accounting test, respectively. The assessment under Criterion 2 is undertaken in Section 8 and the assessment under Criterion 3 is set out in Section 9. Section 10 deals with other matters raised throughout the proceedings. Section 11 deals with the K factor calculation methodology and the K factor true-up for 2013, as well as K factor forecasts for 2014 and 2015.

3.1 North south issue

34. ATCO Gas performed its grouping and the accounting test by segregating its projects on a north and south basis. It performed the materiality test separately for the north and the south basis in order to develop a north and south K factor.

35. The CCA raised a concern with respect to the accounting test effects arising from the split between ATCO Gas north and south. The CCA submitted that there is the potential for a program to have a positive accounting test result in either the north or south and a negative accounting test result in the other, which if grouped together would result in a reduced accounting test result. Similarly, the opposite is true, that there is the potential for a program in each of the north and south not to pass the materiality threshold separately, but when combined in a grouping would then collectively pass the materiality threshold. The CCA submitted that the

net effect of combining ATCO Gas north and south for capital tracker purposes is largely neutral; however, the result may smooth the collection of capital trackers and reduce rate shock.¹⁷

36. In its rebuttal evidence, ATCO Gas explained that it currently has separate north and south rates and is required by the Commission to have separate north and south rate bases because the PBR formula is applied separately to each rate base. The result is that ATCO Gas requires separate north and south K factors.¹⁸ With respect to implementing a single PBR plan and K factor, ATCO Gas submitted that it would “need to have a single PBR plan with a single revenue per customer formula applied to the total revenue, in order to remove the necessity of separate North and South K factors.” However, ATCO Gas would “generally not object to this occurring as it would lead to regulatory efficiency”¹⁹ but ATCO Gas stated that it had not applied for a review of this matter and submitted that it is beyond the scope of this proceeding.

37. The CCA agreed with ATCO Gas that regulatory efficiency would be achieved by merging ATCO Gas north and south for the purposes of capital trackers. The CCA recommended that the Commission consider this issue as it would reduce the risk of customers being over or under charged in a given year.²⁰

Commission findings

38. The Commission has reviewed the separate accounting tests for each of the north and the south, and the corresponding north and south K factors. The Commission is mindful that a lower materiality threshold may indeed cause certain projects to qualify for capital tracker treatment that would not normally, were the materiality threshold combined. However, the Commission considers that this issue goes both ways, in that combining the north and the south projects under a combined materiality threshold could also cause projects to qualify for capital tracker treatment when considered on an aggregate basis. The Commission finds that until ATCO Gas is directed to move to an Alberta-wide rate model with one rate base, it will be required to maintain its current practice of calculating rate base and performing its grouping and accounting test calculations utilizing its separate north and south calculations.

4 Projects included in the 2013-2015 capital tracker application

39. ATCO Gas applied for 18 capital tracker programs in the 2014-2015 capital tracker and 2013 true-up application. The table below lists each program and its associated K factor for each year.

¹⁷ Exhibit 57.01, AUC-CCA-2(a).

¹⁸ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 73.

¹⁹ Exhibit 37.02, CCA-AG-12.

²⁰ Exhibit 76.01, CCA argument, paragraph 144.

Table 1. Capital tracker K factors²¹

	2013 actual		2014 forecast		2015 forecast	
	North	South	North	South	North	South
	(\$000)					
Steel Mains Replacements	5,047	2,244	6,878	2,584	9,272	2,919
Plastic Mains Replacement	959	2,153	2,450	3,875	4,488	6,215
Transmission Driven Capital	208		848	191	2,224	1,771
Meter Relocation Replacement	1,489	308	1,975	537	2,375	1,027
Line Heater Reliability			319		726	
	7,704	4,704	12,470	7,187	19,085	11,932
Cathodic Protection					216	159
Regulating Metering Station Improvements	600		595		545	
Rural Main Replacements and Relocations						181
New Urban Service Lines		121		148		208
Service Line Replacements and Improvements	473	754	782	1,192	1,077	1,645
Urban Feeder Mains					188	
New Regulating Meter Stations			253		338	
Urban Main Extension					435	
Urban Main Improvements			283		605	
Urban Main Relocations	630		1,083		1,573	229
Transportation Equipment				144		228
Meter Set Improvements	151		179		207	
Rural Main Extensions and Services					268	
Subtotal	1,854	875	3,175	1,485	5,452	2,650
Total applied-for capital trackers	9,559	5,579	15,645	8,671	24,537	14,582

5 Grouping of projects for capital tracker purposes

40. In Decision 2013-435, the Commission determined that the accounting test (Criterion 1) and the first tier of the materiality test (Criterion 3) will be applied to the approved groupings (i.e., either at a project or at a program level). The Commission also indicated that while the project assessment will generally be applied at the level of an approved grouping of projects, the Commission will, where necessary, consider the individual component projects comprising the approved groupings in order to assess the need for the capital additions and the reasonableness of the forecast costs. The second tier of the materiality test will be applied at the level of all capital tracker projects, in the aggregate.²² The Commission also determined that the reasonableness of the grouping of capital projects is best assessed on a case-by-case basis for each individual company.²³

41. In its 2013 capital tracker application filed in Proceeding 2131, ATCO Gas proposed the following grouping of capital tracker projects into programs:

- Urban Mains Replacement (UMR)

²¹ Exhibit 27.01, application amendment, June 6, 2014.

²² Decision 2013-435, paragraph 407.

²³ Decision 2013-435, paragraph 406.

- PE/PVC Rural Main Replacement
- Meter Relocation & Replacement
- Line Heater Replacements
- Transmission Driven Capital
- Third-party Replacements²⁴

42. In Decision 2013-435, the Commission determined ATCO Gas's proposed grouping to be reasonable. The Commission stated:

616. With respect to the groupings provided by ATCO Gas, the Commission has determined that they are reasonable. The proposed capital trackers, as grouped, comprise projects of a similar nature and, where applicable, are consistent with ATCO Gas' past practice in general rate applications. The Commission also notes that ATCO Gas has grouped its UMR and RMR projects into two separate programs. Each of the programs includes projects for the replacement of pipe of a similar asset type with a relatively common vintage. It is the asset type and vintage characteristics of each type of pipe that give rise to the requirement for replacement. With respect to the MRRP and line heater replacements, the Commission notes that the component projects in each of these programs are for a common asset or facility type with similar safety characteristics that give rise to the requirement for replacement. Finally, with respect to the transmission driven capital and third-party replacements, the Commission notes that the component projects in each of these programs have a common driver for the replacement need. The driver for transmission driven capital is the requirement to replace facilities to connect to a gas transmission service provider. Third-party replacements are driven at the request of an external party. For these reasons, the Commission does not share the concerns of the UCA with respect to the grouping proposed by ATCO Gas. ATCO Gas' grouping of projects into programs, as proposed for capital tracker treatment, is approved as filed.

617. For the purpose of the project assessment, the Commission will assess individually each of the component projects in ATCO Gas' six programs proposed for capital tracker treatment, commensurate with the level and detail of the information provided in support of each program.²⁵

43. To the extent that the groupings in the present 2014-2015 capital tracker and 2013 true-up application are the same as approved in Decision 2013-435, the Commission will not re-evaluate those groupings in this decision except to the extent that issues related to those groupings arose in this proceeding. Any new groupings are proposed in this proceeding will be assessed by the Commission in this decision.

44. In its application in the present proceeding, ATCO Gas proposed groupings that it submitted are in accordance with the Commission's direction to isolate assets that are similar in nature or function and that have a common requirement for capital investment. ATCO Gas explained that its groupings are based on similarity of asset type, vintage characteristics, safety characteristics or drivers that give rise to the need for the projects, and in the manner that it has categorized its capital historically in its past general rate applications (GRAs). ATCO Gas also looked at the guidance given to other utilities in establishing its groupings for capital tracker purposes. ATCO Gas further noted that it maintained its capital tracker program groupings from its prior application for five of the six programs; ATCO Gas explained that it was unable to

²⁴ Decision 2013-435, paragraph 605, Table 11.

²⁵ Decision 2013-435, paragraphs 616-617.

maintain its grouping of the Third-party Replacements program due to limitations in the data used for the accounting test as required under Criterion 1.²⁶ ATCO Gas further elaborated:

... historically ATCO Gas included externally driven replacement projects in rural areas in its Rural Main Replacements and Relocations program. Similarly, externally driven replacement projects in urban areas were historically included in the Urban Main Relocations program. When ATCO Gas undertook the rate base allocation exercise required for the net project cost calculations described in Section 3, it was unable to readily split its historical rate base for the Rural Main Replacements and Relocations program into those projects that are at the request of third parties and those that are not. Because the project net cost approach is required to comply with Criterion 1, ATCO Gas no longer uses the Third Party Replacements grouping but rather has moved back to its historical groupings of Rural Main Replacements and Relocations, and Urban Main Relocations.²⁷

45. The groupings proposed by ATCO Gas in this proceeding, are as follows:

- Steel Mains Replacement (SMR), previously Urban Mains Replacement
- Plastic Mains Replacement (PMR), previously PE/PVC Rural Main Replacement
- Meter Relocation Replacement (MRR)
- Line Heater Reliability, previously Line Heater Replacements
- Transmission Driven Capital
- Cathodic Protection
- Regulation Metering Station Improvements
- Rural Main Replacements and Relocations, previously Third-party Replacements
- New Urban Service Lines
- Service Line Replacements and Improvements
- Urban Feeder Mains
- New Regulating Meter Stations
- Urban Main Extensions
- Urban Main Improvements
- Urban Main Relocations, previously Third-party Replacements
- Transportation Equipment
- Meter Set Improvements
- Rural Main Extensions and Services

46. The interveners raised a number of issues with ATCO Gas's proposed project grouping. These concerns are discussed in detail in Section 5.1 below. In addition, the CCA raised the issue of project grouping across years, which is discussed in Section 5.2 below.

5.1 Intervener concerns with project grouping

47. In argument, the CCA discussed at length how ATCO Gas's project grouping for capital tracker purposes was responsive to the perverse incentives inherent in capital trackers. The CCA noted that there are two distinct incentives. First, a company may want to aggregate smaller projects in order to pass the materiality threshold. Second, a company may break down its

²⁶ Exhibit 4, application, paragraph 85.

²⁷ Exhibit 4, application, paragraph 290.

groupings to a level that will allow the company to capture negative capital trackers through the accounting test.²⁸ A negative capital tracker is a project or program grouping that demonstrates a negative result from the accounting test. With regard to ATCO Gas, the CCA was primarily concerned with the incentive to capture negative capital trackers. The CCA stated:

Therefore, the smaller the number of projects or asset groupings the higher the probability that some of those groupings will have a negative accounting test. Conversely, the larger the grouping the more the positive and negative accounting tests for each individual asset or project will offset or smooth out. Therefore, the incentive for the utility is to go down to the individual asset level such as a transformer or pole to maximize the number of negative accounting tests.²⁹

48. The CCA submitted that the Commission should utilize a no harm test when analyzing groupings by employing a standard similar to that mentioned in Decision 2000-41:³⁰

... the Board concludes that it should weigh the potential positive and negative impacts of the transactions to determine whether the balance favours customers or at least leaves them no worse off, having regard to all of the circumstances of the case.³¹

49. The CCA noted that the first PBR objective was to create incentives for the regulated companies to improve their efficiency. The CCA's view of ATCO Gas's response to this incentive was to create two pools of revenue. Pool number one would include the revenue embedded in going-in rates, which is subject to the I-X, while pool number two would include K factor revenue.³² The CCA further stated:

K factors are potentially unlimited. K factors also include a return component. Therefore to increase net income one simply needs to increase the capital trackers or the amounts of cap expenditures under trackers. Within three years of the start of PBR the revenue requirement for capital trackers is 50% of the total capital revenue requirement. In other words, tracked capital is 50% of total capital. This is compared to the forecast of 6% in Decision 2013-435. That is not to say that the K factor is 50% of the revenue requirement but simply that one must track 50% of capital in order to determine the K factor.³³

50. The CCA noted that the Commission previously rejected EDTI's proposed operations and maintenance (O&M) only plan because of concern that large amounts of capital regulated under a capital tracker type mechanism would significantly dampen the efficiency incentives of a PBR plan. The CCA expressed its view that 50 per cent of total capital is substantial, resulting in the efficiency incentives of the PBR plan being dampened significantly.³⁴

51. The CCA submitted that ATCO Gas did a poor job of following the EDTI grouping model.³⁵ In its reply, ATCO Gas explained that it did not follow EDTI's grouping model and that "it is not clear to ATCO Gas how a natural gas distribution utility such as ATCO Gas could

²⁸ Exhibit 89.01, CCA argument, paragraph 89.

²⁹ Exhibit 89.01, CCA argument, paragraph 74.

³⁰ Decision 2000-41: TransAlta Utilities Corporation, Sale of Distribution Business, Application 2000051-1, File 6404-3, July 5, 2000.

³¹ Exhibit 89.01, CCA argument, paragraph 90.

³² Exhibit 89.01, CCA argument, paragraph 15.

³³ Exhibit 89.01, CCA argument, paragraph 16.

³⁴ Exhibit 89.01, CCA argument, paragraphs 115-116.

³⁵ Exhibit 89.01, CCA argument, paragraphs 23-26.

‘accept and transfer groupings’ from an electric distribution utility with completely different assets and capital programs.”³⁶

52. The CCA submitted an aid-to-cross that showed ATCO Gas’s programs and projects as proposed in the 2011-2012 GRA and separated them into level 1, level 2, and level 3, as demonstrated in the CCA’s aid to cross.³⁷ As explained by ATCO Gas, the CCA has characterized ATCO Gas’s broad capital categories (such as Distribution) as level 1, the functional categories (such as Distribution Extensions) as level 2, and the capital program categories (such as Urban Main Extensions) as level 3.³⁸ Mr. Thygesen, on behalf of the CCA, later explained that the Commission “shouldn’t be going down to the Level 2 or the Level 3 to allow a grouping in capital tracker test or K factor tests.”³⁹ In its argument, ATCO Gas noted that the Commission already approved groupings for six programs in Decision 2013-435 and that all six of these programs are at the CCA’s level 3 grouping.⁴⁰ These prior approved groupings account for approximately 80 per cent of ATCO Gas’s applied-for capital trackers.⁴¹

53. ATCO Gas further explained that its proposed groupings provided a greater level of granularity, consistent with the direction provided with respect to the ATCO Electric groupings in Decision 2013-435:⁴²

The Commission finds that ATCO Electric’s subprogram level presents a better grouping of projects of a similar nature, for capital tracker treatment, than grouping at the program level as applied for. A grouping at the subprogram level still appears to be consistent with ATCO Electric’s past practice in general tariff applications. Therefore, ATCO Electric should reassess the grouping of its projects in future applications to isolate assets for capital tracker treatment that are similar in nature or function and have a common requirement for capital investment.⁴³

54. In UCA-AG-07, the UCA requested additional calculations for the non-capital tracker programs listed in ATCO Gas’s schedules. ATCO Gas refused this request, explaining that it was not relevant to the testing of its application and noting that Decision 2013-435 states that “the Commission did not contemplate evaluating the totality of the company’s capital forecast or its entire forecast revenue requirement, in order to determine the eligibility of a subset of the company’s capital forecast for capital tracker treatment.”⁴⁴

55. The CCA noted, in the quote that follows, that because of the incentive to group projects strategically, it becomes important to test the company’s groupings fully.

To be clear, once parties have reviewed and agreed to groupings, there is no need to review non-tracker additions; those are out-of-scope. However, until groupings are determined, all assets should be reviewed to determine the most fair and reasonable grouping.

³⁶ Exhibit 94.01, ATCO Gas reply argument, paragraphs 96-97.

³⁷ Exhibit 70.01, CCA aid to cross, comparison to prior groupings.

³⁸ Exhibit 90.01, ATCO Gas argument, paragraph 58.

³⁹ Transcript, Volume 6, page 938, line 24 to page 939, line 2 (Mr. Thygesen).

⁴⁰ Exhibit 90.01, ATCO Gas argument, paragraph 63.

⁴¹ Exhibit 90.01, ATCO Gas argument, paragraph 56.

⁴² Exhibit 90.01, ATCO Gas argument, paragraphs 64-65.

⁴³ Decision 0213-435, paragraph 711.

⁴⁴ Exhibit 36.02, UCA-AG-07(a) to (c).

In this respect, the CCA is not proposing a full review of the details of all trackers - only the grouping. However, the CCA notes that although the Commission indicated that it did not want to test the company's entire forecast it will be on track, as noted earlier to test 100% of capital additions by mid-2017.⁴⁵

...
... without knowing and examining the entirety of the assets or projects of the company one cannot made an informed decision as to the appropriate groupings to make up a tracker. Note that this does not mean testing capital for prudence. This only occurs AFTER the groupings have been determined and only for those assets or projects grouped together as an approved tracker.⁴⁶

56. In its evidence, the CCA noted that ATCO Gas is applying for \$78 million in capital trackers but that there is also \$33 million in negative capital trackers and surplus revenue. It submitted that main and lines account for \$57 million of the total capital tracker application and that a different approach to grouping these projects would yield a net capital tracker of \$27 million, a variance of negative \$30 million. Further, it submitted that grouping meters together changes a positive capital tracker to a negative one.⁴⁷

57. The CCA further made reference to a number of project groupings it believes have been created solely to segregate the impact of negative and positive accounting tests. The CCA explained that separating the previous four groups into 19 groups no longer nets off positive and negative accounting tests, as was the case with going in rates.⁴⁸ The CCA provided the following table to illustrate its position:

Table 2. Summary of projects split into negative and positive accounting tests⁴⁹

	Negative accounting test	Positive accounting test
Prior GTA group	Distribution extensions	
Proposed group	Urban Main Extensions New Urban Service Lines Rural Main Extensions and Services	New Regulating Meter Stations
Prior GTA group	Distribution Improvements	
Proposed group	Urban Main Improvements Rural Main Replacements and relocations Regulating Metering Station Improvements	Steel Mains Replacement Commercial Below Ground Entry Urban Main Relocations Plastic Mains Replacements Line Heater Reliability Cathodic Protection
Prior GTA group	Distribution services	
Proposed group	New Urban Service Lines	Service Replacements and Improvements
Prior GTA group	Meters, regulators and installations	
Proposed group	Meters and Instruments Regulating and Meter Installations	Meter Set Improvements Meter Relocation Replacement

⁴⁵ Exhibit 46.01, CCA evidence, pages 14-15.

⁴⁶ Exhibit 57.01, AUC-CCA-02.

⁴⁷ Exhibit 46.01, CCA evidence, page 11.

⁴⁸ Exhibit 89.01, CCA argument, paragraphs 46-47.

⁴⁹ Exhibit 89.01, CCA argument, paragraph 46.

58. In its reply, ATCO Gas noted that these are not new groups created specifically for the purpose of capital trackers.

The CCA has conveniently left out the fact that in addition to the summarized functional category table provided in its GRA, ATCO Gas also provided detailed breakdown tables and descriptions of the individual capital programs within each functional category. Nothing in the present Application is a newly created category. Every grouping in this Application was either approved in Decision 2013-435 or it appeared in the 2011/12 GRA. ATCO Gas filed the detailed capital program tables and the summarized functional category table, directly from its [sic] 2011/12 GRA, in its response to CAL-ATCO-23 Attachment. The Commission should not be fooled by this re-labeling exercise of the CCA based on a selective (and misleading) excerpt from a prior GRA.⁵⁰

59. The CCA noted that the benefits to the company from creating groupings that result in negative accounting tests are much more powerful than the benefits to the company from building rate base.⁵¹ The CCA submitted that ATCO Gas's proposed groupings appear to be designed to separate the negative from the positive for the purpose of the accounting test⁵² and that the amounts applied for within the application "contain a number of sizable windfall gains due to strategic grouping."⁵³ The CCA proposed that any regrouping of projects should not result in additional costs to customers as the result of the regrouping.⁵⁴

60. The CCA noted that it identified approximately \$50 million in negative accounting tests and that the bulk of these negative accounting tests arise through regrouping. "As a result, simply by virtue of this grouping or a bookkeeping exercise customers end up paying more for exactly the same types of service that they received previously."⁵⁵ The CCA argued that ATCO Gas is using its groupings to reduce the financial pressure created by the I-X mechanism. As the \$50 million is substantially more than the effect of the X factor, ATCO Gas has, by virtue of its grouping, increased its forecast revenue more than sufficiently to offset the effect of X, which was supposed to be the benefit to consumers.⁵⁶

61. With regard to the \$50 million in negative accounting tests identified by the CCA, ATCO Gas stated:

Although the Commission was clear that accounting test results for non-Capital Tracker programs (or in the years that the materiality threshold was not met, for Capital Tracker programs) were not to be tested in this proceeding, the CCA nonetheless attempted to calculate their own results and has relied on its own calculations to support its position. ATCO Gas would clarify that it does not accept the CCA's accounting test calculations and confirms that they are incorrect. ATCO Gas submits that these incorrect, and more importantly, irrelevant accounting test results must be disregarded.⁵⁷

⁵⁰ Exhibit 94.01, ATCO Gas reply argument, paragraph 109.

⁵¹ Exhibit 89.01, CCA argument, paragraph 27.

⁵² Exhibit 89.01, CCA argument, paragraph 103.

⁵³ Exhibit 89.01, CCA argument, paragraph 123.

⁵⁴ Exhibit 89.01, CCA argument, paragraph 104.

⁵⁵ Exhibit 89.01, CCA argument, paragraphs 79-80.

⁵⁶ Exhibit 90.01, ATCO Gas argument, paragraph 101.

⁵⁷ Exhibit 94.01, ATCO Gas reply argument, paragraph 100.

62. ATCO Gas argued that broadening the groupings to use the CCA proposed level 1 categories turns the project net cost approach into the aggregate investment shortfall approach.⁵⁸ ATCO Gas noted that the aggregate investment shortfall approach, which was previously rejected, is now being proposed by the CCA through the incorporation of any potential negative accounting test results into the K factor by grouping capital programs with positive and material results with those that may have negative results.⁵⁹ ATCO Gas further noted that using the proposed level 1 groupings would “leave ATCO Gas with two groupings in this Application – ‘Distribution’ and ‘Moveable Equipment.’ Together, these two groupings would cover approximately 90 per cent of ATCO Gas’s capital program in 2014, which would be contrary to the Commission’s direction that it did not want to test the entirety of the utility’s capital program in the context of Capital Tracker Applications.”⁶⁰

63. In its reply, the CCA submitted that it is not proposing an aggregate investment shortfall approach, but rather it is still grouping on a project-by-project basis. It stated that while level 1 groupings are preferable, level 2 groupings would also reduce the harm to customers.⁶¹ It further submitted that ATCO Gas stated negative capital trackers cannot arise in the aggregate investment shortfall analysis and as the CCA takes issue with negative capital trackers, it is clearly not proposing an aggregate investment shortfall approach.⁶²

64. In its argument, ATCO Gas noted that the Commission has already ruled against negative capital trackers.⁶³ In its reply, the CCA stated that it “does not propose negative trackers be offset against the positive trackers however the CCA submits the AUC must determine the appropriate groupings of capital projects.”⁶⁴

65. The CCA noted that a larger number of groups and associated business cases reduces regulatory efficiency.⁶⁵ ATCO Gas explained that moving to fewer broader categories, as suggested by the CCA, will not decrease the amount of capital to be reviewed in these proceedings. Rather, “the categories would begin to include programs that ATCO Gas is not currently seeking Capital Tracker treatment of.”⁶⁶ ATCO Gas also noted that “minimizing the amount of capital to be reviewed in Capital Tracker proceedings was one of the key reasons that the Commission instituted the project net cost approach rather than the aggregate investment shortfall approach for the accounting test.”⁶⁷

66. ATCO Gas noted that there are some constraints on its ability to group projects. The project net cost approach requires that the rate base associated with each capital program be identified and used for the revenue shortfall calculation. ATCO Gas explained that “one simply cannot do the accounting test as directed if the capital programs are grouped in such a way that does not allow for the identification of the associated rate base”⁶⁸ and that “establishing

⁵⁸ Exhibit 90.01, ATCO Gas argument, paragraph 61.

⁵⁹ Exhibit 90.01, ATCO Gas argument, paragraph 60.

⁶⁰ Exhibit 94.01, ATCO Gas reply argument, paragraph 110.

⁶¹ Exhibit 93.01, CCA reply argument, paragraph 56.

⁶² Exhibit 93.01, CCA reply argument, paragraphs 64-65.

⁶³ Exhibit 90.01, ATCO Gas argument, paragraph 60.

⁶⁴ Exhibit 93.01, CCA reply argument, paragraph 68.

⁶⁵ Exhibit 89.01, CCA argument, paragraph 103.

⁶⁶ Exhibit 90.01, ATCO Gas argument, paragraphs 61-62.

⁶⁷ Exhibit 90.01, ATCO Gas argument, paragraph 62.

⁶⁸ Exhibit 90.01, ATCO Gas argument, paragraphs 67-68.

groupings that are at a more granular level than that historically used presents a problem in reasonably identifying historical costs associated with each grouping.”⁶⁹

67. In its argument, Calgary submitted that there is motivation for a utility to game and scheme grouping. It noted that this motivation is particularly compelling for 2013, given the money has already been spent, as ATCO Gas is able to form groupings to ensure that the true-up qualification test is met.⁷⁰ In its reply, ATCO Gas stated that it “did not manipulate groupings or adjust groupings to yield a higher overall capital tracker application.”⁷¹

68. Calgary agreed with the CCA on the following conclusions:

- grouping of assets is absolutely critical and has a huge influence on the amount of the tracker [revenue];
- to continue groupings of past cost-of-service projects can yield perverse results;
- there are significant incentives to strategically group trackers;
- the question of grouping is directly relevant to the quantum of trackers and the incentives under PBR;
- until groupings are determined, all assets should be reviewed to determine the most fair and reasonable grouping.⁷²

69. The CCA recommended the following:

The CCA recommends that ATCO be directed to group its projects as in the past GTA with six groupings. Although this does not eliminate customers paying more due to the fact that some old groups such as IT and General Land and Structures generate over \$12 million in negative accounting tests over the test period it would be a significant reduction in the rates which ATCO is proposing that customers pay for identical service.⁷³

70. It was further recommended by the CCA that, due to the arbitrary nature of the groupings and the high degree of change from past groupings, the groupings that result in the lowest cost to customers should be adopted.⁷⁴ The CCA summarized the views on groupings thusly:

... the groupings result in rate changes effective January 1, 2013 for no other reason than a grouping change. The services have not changed, the quality has not changed, but the price (as represented by rates) has changed. That was not the regulatory agreement set out in Decision 2012 – 237. Customers were supposed to receive the X and companies were to receive their allowed return plus any efficiencies they could extract. The compact was not that the regulated utility could change a few headings and groupings here and there and in so doing extract millions in additional revenue.⁷⁵

⁶⁹ Exhibit 90.01, ATCO Gas argument, paragraph 70.

⁷⁰ Exhibit 88.01, Calgary argument, paragraphs 155-157.

⁷¹ Exhibit 94.01, ATCO Gas reply argument, paragraph 81.

⁷² Exhibit 88.01, Calgary argument, paragraph 163.

⁷³ Exhibit 89.01, CCA argument, paragraph 85.

⁷⁴ Exhibit 89.01, CCA argument, paragraph 102.

⁷⁵ Exhibit 89.01, CCA argument, paragraph 103.

71. In response to the CCA's statement that ATCO Gas is effectively charging customers more for the same service, ATCO Gas noted:

... the CCA appears to believe that there should be no rate increases for the same level of service previously provided. ATCO Gas notes that the Capital Tracker programs that were put forward in this proceeding are required to maintain service at existing levels. Without undertaking this work, service levels would decrease which is one of the concerns addressed for capital tracker eligibility.⁷⁶

72. ATCO Gas noted that contrary to the assertion by the CCA that "grouping flexibility has given ATCO all of the upside and none of the downside on capital,"⁷⁷ ATCO Gas doesn't have any grouping flexibility as it is complying with Commission direction.⁷⁸

73. In response to Commission counsel, Ms. Bayley explained that the ATCO Gas groupings mainly follow the historically determined groupings used in past GRAs both because of the ease of tracking historical costs and because it is an appropriate method of grouping for capital tracker purposes. The projects are grouped together in this manner because that's the way ATCO Gas manages its capital programs and because the projects within the groupings are similar to each other.⁷⁹

74. With respect to the grouping of meters and in response to Commission counsel questioning, Mr. Whittall confirmed that all purchased meters go into the meters, instruments, and regulators category, regardless of project for which they end up being used.⁸⁰ Ms. Bayley noted that this is consistent with the groupings in past GRAs⁸¹ and further explained that even if the Commission decides it does not like this approach, ATCO Gas is unable to split up the category and properly allocate it to the various projects where the meters were deployed. She noted that ATCO Gas would be limited by what it has historically done with this category.⁸² In its argument, ATCO Gas explained that meters purchased in this category are used for the meter recall program, meter and regulator installations, which is a not a capital tracker program, Meter Set Improvement, and the MRRP and that ATCO Gas has not tracked the end use of each meter in the past. As such, ATCO Gas does not have a reasonable way to reassign the rate base of that program to the specific capital tracker programs.⁸³

75. Ms. Bayley also explained that ATCO Gas could not submit a third-party replacements program for the same reason:

Just to explain why we couldn't use it. One of the programs that we've had historically is the rural main replacements and relocations program, and that program includes projects that are both driven by third parties and some projects that are not. And it's very difficult to go back in our historical rate base and identify which portion of it -- the driver for each portion. So we couldn't do it. So that's why we didn't use that grouping in this application.⁸⁴

⁷⁶ Exhibit 94.01, ATCO Gas reply argument, paragraph 98.

⁷⁷ Exhibit 89.01, CCA argument, paragraph 117.

⁷⁸ Exhibit 94.01, ATCO Gas reply argument, paragraph 122.

⁷⁹ Transcript, Volume 3, page 429, line 7 to page 430, line 8 (Ms. Bayley).

⁸⁰ Transcript, Volume 3, page 474, line 15 to page 475, line 13 (Mr. Whittall).

⁸¹ Transcript, Volume 3, page 370, lines 5-13 (Ms. Bayley).

⁸² Transcript, Volume 3, page 477, line 20 to page 478, line 16 (Ms. Bayley).

⁸³ Exhibit 90.01, ATCO Gas argument, paragraphs 71-75.

⁸⁴ Transcript, Volume 3, page 368, lines 5-14 (Ms. Bayley).

...

And I would just add, too, the programs in the top half of that table that involve mains, steel mains replacement, plastic mains replacement -- there's also mains in transmission-driven -- they are not only mains. There's a significant amount of services replaced in both of those replacement programs, and the transmission-driven program has a significant amount of station work.

So we are grouping them by projects and programs in the way that we undertake those programs, and not by asset accounts.⁸⁵

76. ATCO Gas has a total of six meter categories: four applied-for metering capital trackers, which are MRRP, Regulating Metering Station Improvements, New Regulating Meter Stations, and Meter Set Improvements, and two other metering categories for which it is not applying for capital tracker treatment, which are meters and instruments, and regulators and meter installations.⁸⁶ In its evidence, the CCA submitted that grouping the meter programs together is a "more reasonable tracker" and would change the capital tracker amount from \$1.1 million to a negative amount that would be netted to zero.⁸⁷ In its reply, the CCA submitted that meters should be grouped together at their former level 1 grouping and that this approach would sidestep the accounting difficulties discussed by ATCO Gas with respect to splitting the meters, instruments, and regulators category.⁸⁸

77. Mr. Whittall explained that meters are not the primary aspect of all of these programs and fully explained the differences between each program as follows:

... the meter removal and replacement program does move meters from inside homes to outside homes. But at this point we are dealing with risks associated largely with -- we call it the meter set, but it is actually the riser and the appurtenances as they get to the meter effectively.

...

The regulating metering station improvements that you also mentioned are regulating stations that you would normally see in and around cities and other urban areas and also include the small farm tap units that you might see as a green box along the side of the road. And the majority of those do not have a meter in them at all.

...

The new reg and meter stations, again similar to what I just described, we say there's -- we call them reg and metering stations. A lot of them do not have meters in them.

...

[meter set improvements] is quite often a measurement function. It is a measurement accuracy function, so it does come to replacing the meter -- or pardon me -- resizing the meter to accommodate different load conditions.

...

Meters and instruments are specifically meters and assets -- pardon me -- meters and instruments as an asset themselves, so it is just the purchase of those, not the installation of those.

...

⁸⁵ Transcript, Volume 3, page 370, lines 14-24 (Ms. Bayley).

⁸⁶ Transcript, Volume 3, page 469, line 23 to page 470, line 9 (Mr. Whittall).

⁸⁷ Exhibit 46.01, CCA evidence, pages 11-13.

⁸⁸ Exhibit 93.01, CCA reply argument, paragraph 71.

And the last one was regulator and meter installations, which is the installation and setting of meters and regulators.⁸⁹

78. With respect to the grouping of transmission-driven projects, Ms. Bayley noted that in Proceeding 2131, ATCO Gas grouped three projects together, including the southern extensions replacement project, into the transmission-driven program.⁹⁰ Ms. Bayley further confirmed that the southern extension program has been grouped into the transmission-driven category for the purposes of this application.⁹¹

79. In response to Commission counsel questioning about the possible grouping of urban feeder mains, urban main improvements, and urban main relocations, Ms. Bayley explained that “urban main relocations are driven exclusively by external parties. Whereas, urban main improvements are typically ATCO Gas correcting a safety, reliability, or capacity issue somewhere on its system in a built-up area.”⁹² Mr. Smetaniuk explained that the urban feeder mains program is driven by growth.⁹³ ATCO Gas kept these projects separate for the purposes of grouping, since these projects are associated with different drivers.⁹⁴

80. With regard to urban main extensions and new urban service lines, ATCO Gas explained that the main extensions are done ahead of the services and there is often a long period of time in between. This is different from the rural main extensions and service lines project where these installations occur together and are all subject to customer contributions.⁹⁵ ATCO Gas also noted that in the urban environment, the customer associated with main construction is actually different from the customer associated with service construction.⁹⁶

81. With regard to the bare main replacement program and whether that should be grouped with the SMR program, Ms. Berger explained that the historical expenditures were not allocated to the SMR program:

The majority of the bare mains replacement program expenditures would have been recorded to Account 475, Mains. Therefore, in the rate base allocation spreadsheets of Schedule A-2.2, these expenditures would have been allocated to the other programs that book into the Account 475, such as urban mains extensions, rural mains extensions, urban feeder mains, urban main improvements, urban main relocations, and rural main replacements and relocations, all of which are also capital tracker programs.

It appears as though this was an oversight and should have been included as part of the SMR program. However, if the bare mains replacement program expenditures were to be included in the SMR program, there would be an insignificant impact on the K factor. This is because the rate base allocation is applied to 2010 ending rate base, which is used as the starting point for both the 2012 approved rate base and the 2013 to 2015 rate base. Therefore, if the actual rate base for SMR increased, so would the 2012 approved rate base for SMR resulting in a higher calculation of revenue received under I minus X and also a higher calculation of revenue requirement.

⁸⁹ Transcript, Volume 3, page 471, line 6 to page 473, line 8 (Mr. Whittall).

⁹⁰ Transcript, Volume 3, page 378, line 19 to page 379, line 4 (Ms. Bayley).

⁹¹ Transcript, Volume 3, page 467, lines 15-21 (Ms. Bayley).

⁹² Transcript, Volume 3, page 432, lines 17-22 (Ms. Bayley).

⁹³ Transcript, Volume 3, page 434, lines 1-4 (Mr. Smetaniuk).

⁹⁴ Transcript, Volume 3, page 433, lines 22-25 (Ms. Bayley).

⁹⁵ Transcript, Volume 3, page 436, line 19 to page 438, line 11 (Mr. Smetaniuk).

⁹⁶ Transcript, Volume 3, page 439, lines 18-24 (Mr. Feltham).

ATCO Gas would be willing to adjust for this in a compliance filing if the commission thought it was necessary.⁹⁷

Commission findings

82. As noted above, the Commission previously accepted ATCO Gas' grouping as proposed in its 2013 capital tracker application in Decision 2013-435. To the extent that the groupings in the present 2014-2015 capital tracker and 2013 true-up application are the same as approved in Decision 2013-435, the Commission does not need to re-evaluate those groupings in this decision, except to the extent that issues related to those grouping arose in this proceeding.

83. In Decision 2013-435, the Commission provided guidance on how capital projects and programs should be grouped. The Commission indicated that grouping must allow for a "meaningful application of the accounting test and materiality test"⁹⁸ and that grouping would be assessed on a case-by-case basis for individual companies. The Commission further indicated that projects must be "sufficiently similar in nature to warrant grouping into a single program."⁹⁹ Expressed another way, the projects or programs proposed for grouping must be "similar in nature or function and have a common requirement for capital investment."¹⁰⁰ The Commission noted that geographic location alone is not a sufficient justification to consider projects as being dissimilar.¹⁰¹ The Commission also indicated that projects and programs should ordinarily be grouped, where applicable, in a manner "consistent with historical project classifications in cost-of-service applications."¹⁰² The Commission noted other factors to consider when assessing grouping include whether the component projects grouped together have a "common driver"¹⁰³ or whether a project is sufficiently "unique and substantial"¹⁰⁴ so as to merit grouping on a stand-alone basis. Even where a grouping of similar projects or programs into a capital tracker of a certain nature may be otherwise acceptable, the grouping may not be allowed if the supporting information is not sufficiently disaggregated to allow for a "reasonable assessment of the forecast or actual capital expenditures"¹⁰⁵ for each of the included project or program categories.

84. The CCA has commented on the incentive to group projects and programs advantageously in order to qualify for a higher K factor. In its argument, the CCA presented a grouping principle that was focused on minimizing the amounts paid by customers. The CCA claimed that ATCO Gas had utilized groupings with the goal of eliminating projects with negative accounting test results from the selected groupings in order to maximize the K factor calculation, resulting in windfall gains for the company. Further, Calgary noted that the incentive to game and scheme groupings for 2013 was particularly compelling.

85. In Decision 2012-237, the Commission recognized the significance of the grouping of projects proposed for capital tracker treatment when it stated:

⁹⁷ Transcript, Volume 3, page 539, line 23 to page 540, line 24 (Ms. Berger).

⁹⁸ Decision 2013-435, paragraph 1001.

⁹⁹ Decision 2013-435, paragraph 839.

¹⁰⁰ Decision 2013-435, paragraph 711.

¹⁰¹ Decision 2013-435, paragraph 837.

¹⁰² Decision 2013-435, paragraph 1001.

¹⁰³ Decision 2013-435, paragraph 616.

¹⁰⁴ Decision 2013-435, paragraph 1003.

¹⁰⁵ Decision 2013-435, paragraph 1002.

601. ... The Commission also considers that it would not be suitable to group together several dissimilar projects into a single large project to give the appearance of materiality. However, a number of smaller related items required as part of a larger project might qualify for capital tracker treatment.¹⁰⁶

86. The CCA commented on the incentives utilities have in determining the grouping of capital projects when applying for capital trackers. The Commission notes that grouping projects for the sole purpose of either minimizing or maximizing the capital tracker revenue is contrary to the PBR decision.

87. The Commission recognizes that a company has an incentive to group together those projects that produce a positive accounting test but are individually below the first tier of the materiality threshold as an applied-for tracker in order to exceed the materiality threshold on a collective basis. A company also has an incentive to group a project that is below the first tier of the materiality threshold with another group that exceeds the threshold. The Commission also recognizes that a company has an incentive to isolate projects for which the accounting test is negative to avoid providing any offset to the K factor calculation in the accounting test. In Decision 2013-435, the Commission commented on these incentives at paragraphs 403 and 404:

403. At the same time, the Commission shares the UCA's view that, given the importance of project grouping, "the method of aggregating projects into a program-level will require close scrutiny." This is because grouping of projects will have a direct impact on the results of the accounting test and the project assessment under Criterion 1, as well as the assessment of materiality under Criterion 3.

404. Specifically, with respect to the accounting test under Criterion 1, it would be possible for a company to group projects together for the sole purpose of ensuring that the revenue from the I-X mechanism is insufficient to fund a portion of the revenue requirement associated with capital expenditures for the proposed projects, as grouped. The UCA reached a similar conclusion when it stated that "it would be possible for Utilities to group projects together in such a way as to artificially inflate the numbers in a single program to fall outside historic levels of spending." Likewise, with respect to Criterion 3 dealing with materiality, the UCA noted that the companies may attempt "to roll projects together to meet the materiality criterion." The Commission agrees and finds that this is a relevant consideration for the four basis point threshold under the first tier of the materiality test set out in Section 3.3.¹⁰⁷ [footnotes omitted]

88. Given these incentives, the Commission requires that a company's proposed grouping of capital tracker projects must conform to the requirement of the accounting test "to compare the forecast or actual revenue requirement for [a] project to the going-in revenue historically associated with a similar type of capital expenditures ..." in order to determine the extent to which a project or program is underfunded by the I-X mechanism. The requirement to compare forecast or actual revenue requirement amounts to the going-in revenue historically associated with similar types of expenditures suggests that project or program grouping for capital tracker purposes should be aligned, in most cases, with the historical groupings utilized by the company in previous rate cases in order to facilitate the required comparison. Where historical groupings are employed in determining groupings for capital tracker purposes, there is little reason to question whether the company has manipulated the grouping of projects. Where a company's

¹⁰⁶ Decision 2012-237, paragraph 601.

¹⁰⁷ Decision 2013-435, paragraphs 403-404.

proposed grouping of projects is at odds with its past accounting and reporting practices, as the Commission cautioned in Decision 2013-435, the Commission must assess the reasonableness of the proposed grouping on a case-by-case basis. In doing so, the Commission takes into account “the unique differences among the companies with respect to their historical project classifications in cost-of-service applications, limitations of the companies’ accounting systems, and the nature and geographic location of the companies’ facilities.”¹⁰⁸

89. In Decision 2013-435, the Commission highlighted the importance of project grouping because it has a direct effect on the results of the accounting test and the project assessment under Criterion 1, as well as the assessment of materiality under Criterion 3. The Commission also indicated that projects could be grouped where there are “a number of smaller related items required as part of a larger project”¹⁰⁹ or program.

90. In the 2014-2015 capital tracker and 2013 true-up application, ATCO Gas generally grouped capital projects and programs for capital tracker purposes in accordance with how it has grouped projects and programs historically, which corresponds to how ATCO Gas manages its operations.¹¹⁰ In addition, since this approach reflects the manner in which ATCO Gas manages its costs on a project-by-project basis, its grouping of projects and programs allows for administrative efficiency.

91. The Commission notes that all of the groupings presented in its application existed in ATCO Gas’s previous GTA. The fact that ATCO Gas utilizes all of the groupings in existence prior to the onset of PBR supports a finding that ATCO Gas has not engineered groupings in order to qualify more projects for capital tracker treatment.

92. However, grouping on an historically consistent basis may not be sufficient for capital tracker purposes. Historical groupings have been undertaken for a number of accounting, organizational and business reasons, and may not be suitable for determining whether particular projects or programs are sufficiently similar to be grouped together for capital tracker purposes. Accordingly, the Commission may determine that such historical groupings should be altered or refined.

93. That being said, the Commission agrees with ATCO Gas that there are constraints on the ability to group projects. Specifically, the Commission notes that it is unreasonable to expect ATCO Gas to use groupings that are more granular than those historically used as ATCO Gas would not be able to identify historical costs associated with each grouping in a reasonable manner. In the case of the meters, instruments, and regulators category, the Commission recognizes that it may not be feasible to split the costs of this program into different categories and accordingly, the Commission will not require ATCO Gas to allocate the costs of meters to the associated programs in which they belong.

94. The Commission observes that the historical categorization and tracking of capital additions highlight that much of the capital cannot be categorized into specific unique, stand-alone projects. Rather, the capital is associated with a type of recurring activity generated by a common or overlapping set of causes or events. In these circumstances, consolidating capital

¹⁰⁸ Decision 2013-435, paragraph 405.

¹⁰⁹ Decision 2012-237, paragraph 601.

¹¹⁰ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraphs 61 and 67. Transcript, Volume 3, page 424, line 18 to page 425, line 4 (Ms. Bayley).

project categories into a higher level of capital spending may serve to blur the rationale for the particular spending under review.

95. The Commission notes that ATCO Gas did its groupings before performing the accounting test,¹¹¹ and that ATCO Gas, in formulating the groupings used in the present application, used its prior GRA groupings. ATCO Gas stated in the hearing:

Ms. Bayley: We used our GRA groupings because this is how we could readily identify our costs. It's consistent with the decision. And then we ran the accounting test.¹¹²

96. ATCO Gas also stated that it “did not manipulate groupings or adjust groupings to yield a higher overall capital tracker application.”¹¹³ The Commission accepts this evidence.

97. Given that ATCO Gas's grouping largely reflect similar capital project categories as it has used historically, the Commission finds no basis for a claim that the company may have manipulated the groupings in the capital tracker application. Accordingly, the concerns of the CCA and Calgary that the incentive to manipulate groupings has resulted in a higher K factor and higher costs to ATCO Gas customers are not supported by the evidence.

98. The Commission notes that in Proceeding 3558, the Commission will be considering possible changes to the minimum filing requirements for capital trackers. In that proceeding, the Commission will examine, among other matters, whether the companies should be required to list all projects, including projects with negative accounting test results, in the accounting test model to facilitate the Commission's examination of the reasonableness of the company's proposed grouping.

99. Regarding the CCA's proposal that ATCO Gas' project groupings should be done at the level 1 categories from the 2011-12 GRA, the Commission has reviewed the evidence of parties on this matter and determines the level 3 groupings, as proposed by ATCO Gas, to be reasonable for the purposes of this Decision. The Commission agrees with ATCO Gas that an aggregation at the level 1 categories closely resembles the aggregate investment shortfall approach rejected by the Commission in Decision 2013-435. The Commission notes that under this approach, ATCO Gas would be left with two capital tracker programs representing approximately 90 per cent of ATCO Gas's capital projects in 2014. This would not be consistent with the Commission's intention to avoid testing all of a utility's capital programs annually within the capital tracker applications.¹¹⁴ The Commission explained its concerns with testing a company's entire forecast in Decision 2013-435:

183. In Decision 2012-237, the Commission did not contemplate evaluating the totality of the company's capital forecast or its entire forecast revenue requirement, in order to determine the eligibility of a subset of the company's capital forecast for capital tracker treatment. This would be inconsistent with the PBR goal of reducing regulatory burden. A requirement to review a company's entire capital forecast, in effect, amounts to

¹¹¹ Transcript, Volume 3, page 383, line 24 to page 384, line 6 (Ms. Bayley).

¹¹² Transcript, Volume 3, page 385, lines 4-7 (Ms. Bayley).

¹¹³ Exhibit 94.01, ATCO Gas reply argument, paragraph 81.

¹¹⁴ Decision 2012-237, paragraph 563 and Decision 2013-435, paragraph 185.

a return to cost-of-service testing of the full capital forecast (or a total revenue forecast, including both capital and O&M in the case of Fortis).¹¹⁵

100. With regard to the amount of regulatory burden, the opinion of the CCA is that a larger number of programs and associated business cases results in greater regulatory burden and reduced regulatory efficiency, while ATCO Gas is of the opinion that aggregation of projects into a smaller number of programs will not reduce the number of business cases to be reviewed, but rather it will increase it as more projects will be captured in these broader programs.

101. The Commission notes that the program grouping of Urban Main Replacement (UMR) program, since renamed as the Steel Main Replacement (SMR) program, was previously approved in Decision 2013-435. At the time, this grouping contained only expenditures from 2013 and did not consider any historical expenditures. In this proceeding, ATCO Gas has grouped historical programs with its current programs for the purposes of the accounting test. With regard to the bare main replacement program expenditures, the Commission notes that Ms. Berger admitted that the project should have been included as part of the SMR program.¹¹⁶ The Commission directs ATCO Gas to group the bare main replacement program and the SMR program and adjust for any changes to the accounting test in a compliance filing.

102. In its accounting test, ATCO Gas included several different groupings that are related to metering. The Commission notes that grouping of the MRRP was previously approved in Decision 2013-435. ATCO Gas applied for five new metering-related projects and programs, including Regulating Metering Station Improvements, New Regulating Meter Stations, Meter Set Improvements, Meters and Instruments, and Regulators and Meter Installations. The Commission accepts that ATCO Gas has historically separated its metering capital additions into these categories and therefore accepts these groupings for the purpose of this decision. However, other than for limited discussion at the oral hearing, there was little evidence on the record of the proceeding explaining why it is necessary to continue to separate these related projects and programs for capital tracker purposes. Mr. Whittall explained the differences between the various meter programs. The Commission considers that these distinctions may not be sufficient, on their own, to justify the continued separation of each of these programs and resulting groups in future years. The Commission considers that there are many instances of capital trackers that include different types of interrelated assets that are included within the same grouping because the various capital additions all have similar drivers. Accordingly, ATCO Gas is directed to consider, in its next capital tracker application, the possibility of grouping all five new metering-related projects and programs into a single grouping, and whether such a grouping is warranted. If it remains unwarranted to group all metering-related costs into a single grouping, ATCO Gas shall provide a full explanation.

103. With respect to the three different groupings that are related to urban mains, namely, urban feeder mains, urban main improvements, and urban main relocations program, the Commission accepts that ATCO Gas has historically separated its mains capital additions into these categories and therefore accepts these groupings for the purpose of this decision. ATCO Gas explained that these programs have different drivers, in that urban main relocations are

¹¹⁵ Decision 2013-435, paragraph 183.

¹¹⁶ Transcript, Volume 3, page 540, lines 8-12 (Ms. Berger).

driven by external parties, urban main improvements are driven by safety, reliability or capacity issues and urban feeder mains are driven by growth.¹¹⁷

104. The Commission notes that ATCO Gas has a single capital tracker dealing with rural main extensions and service lines, but that it separates urban main extensions and new urban service lines into two capital trackers. The Commission accepts that ATCO Gas has historically separated the urban main extensions and new urban service lines into these categories and therefore, accepts these groupings for the purpose of this decision. However, other than a limited discussion at the oral hearing, there was little evidence on the record of the proceeding explaining why it is necessary to continue to separate the groupings for capital tracker purposes. ATCO Gas explained that the distinction between these programs is based on timing.¹¹⁸ The Commission considers that this distinction may not be sufficient, on its own, to justify continued separation of each of these programs and resulting groups in future years. Accordingly, ATCO Gas is directed to consider, in its next capital tracker application, the possibility of grouping the urban main extensions and new urban service lines into a single grouping. If it remains unwarranted to group these costs into a single grouping, ATCO Gas shall provide a full explanation.

105. The Commission does not find an issue with the remaining four projects or programs proposed for grouping. As such, the Commission approves the grouping of Cathodic Protection, Rural Main Replacements and Relocations, Service Line Replacements and Improvements Transportation Equipment, and Rural Main Extensions and Services.

106. In light of the above considerations, with the exception of the change to bare main replacements and SMR the Commission finds that the grouping of ATCO Gas's projects or programs proposed for capital tracker treatment appears to be reasonable for the purposes of the present application, subject to the directions above for ATCO Gas to review certain groupings in its next capital tracker application. ATCO Gas's project grouping is consistent with the Commission's determinations in Decision 2013-435 and reflects projects that are of a sufficiently similar nature to warrant grouping into a single program, as described in paragraph 839 of that decision, and is based on the company's practice in previous GTAs.

107. For the purpose of this decision, the Commission accepts ATCO Gas's grouping of projects, with the exception of the change to bare main replacements and SMR, as noted above, as proposed in the 2014-2015 capital tracker and 2013 true-up application. Accordingly, the Commission's accounting test and the first tier of its materiality test is to be applied to ATCO Gas's projects and programs proposed for capital tracker treatment, as filed, with the exception of the change to bare main replacements and SMR. With respect to the project assessment component of Criterion 1, the Commission will assess the large projects embedded in each section of ATCO Gas's programs because, even though individual projects within a program address similar issues, each project is sufficiently independent that it requires individual justification.

¹¹⁷ Transcript, Volume 3, page 432, line 2 to page 434, line 10 (Ms. Bayley and Mr. Smetaniuk).

¹¹⁸ Transcript, Volume 3, page 436, line 19 to page 438, line 11 (Mr. Smetaniuk).

108. The Commission found, with respect to EDTI in Decision 3100-D01-2015,¹¹⁹ that other than in respect of those capital trackers where the Commission had directed EDTI to reconsider the grouping in its next capital tracker application, “a major change to EDTI’s approach to grouping (such as basing project grouping on asset type) is best considered together with the review of the capital tracker mechanism as a whole, in a future proceeding dealing with the second generation of a PBR plan for EDTI.”¹²⁰ Likewise, in order to monitor the potential issue of strategic grouping, the Commission directs ATCO Gas to provide a clear and concise delineation of any changes to, and any reasons for changes to, its groupings in future capital tracker applications. The Commission will be reluctant to authorize any change to groupings proposed by ATCO Gas unless there are significant technological changes or non-management driven reasons for the change. The Commission directs ATCO Gas to include a section in its future capital tracker applications specifically addressing this matter.

5.2 Multi-year grouping and erratic spending patterns

109. The CCA noted that “patterns of high expenditure followed by low expenditure or vice versa for shorter lived assets can occur naturally, depending upon the replacement cycle, without any strategic motive to benefit from tracker timing.”¹²¹ It showed this pattern to exist with low expenditures in 2013 and 2014 and high expenditures in 2015 for urban main extensions and urban feeder mains and with low expenditures in 2013 and high expenditures in 2014 and 2015 for urban main improvements.¹²²

110. The CCA is also concerned that this issue will exist for other projects, such as meters, in future applications. The CCA stated that it “is registering its concern now when customers do not benefit from the negative accounting tests but may be expected to pay for replacements for additions in the future for these same projects.”¹²³

111. The CCA noted that these timing effects arise due to the grouping of projects at a low level and that the effect on customers could be eliminated by requiring higher level groupings.

112. In this regard, ATCO Gas explained that it has an obligation to serve its customers and, as such, it cannot delay expenditures for some period in order to create or maximize negative K factors. The timelines of ATCO Gas’s projects are set by developers, customers, other third parties, or by safety or reliability situations that must be remedied. As a result, ATCO Gas does not have discretion in timing in order to be able to behave strategically. Further, ATCO Gas noted that “the CCA has provided no evidence that ATCO Gas is manipulating its capital spending in order to maximize negative trackers.”¹²⁴

¹¹⁹ Decision 3100-D01-2015, EPCOR Distribution & Transmission Inc., 2013 PBR Capital Tracker True-up and 2014-2015 PBR Capital Tracker Forecast, Proceedings 3216 and 3100, Applications 1610565-1 and 1610362-1, January 25, 2015.

¹²⁰ Decision 3100-D01-2015, paragraph 77.

¹²¹ Exhibit 89.01, CCA argument, paragraph 37.

¹²² Exhibit 89.01, CCA argument, paragraph 36.

¹²³ Exhibit 89.01, CCA argument, paragraphs 39 and 129.

¹²⁴ Exhibit 94.01, ATCO Gas reply argument, paragraphs 101-103.

113. The CCA also recommended that more than one year be taken into consideration in determining the groupings and proposed 2013-2015 be grouped together for the purposes of the accounting test.¹²⁵ The CCA further proposed the following:

... once a capital tracker has been approved, or not approved, that a high threshold must be passed in order to change the capital tracker status in the future. In other words, if the utility is not applying for a tracker in one year, there should be some additional threshold and qualitative criteria to allow ATCO to apply for tracker status in years subsequent to years in which it enjoyed negative accounting tests. This measure would help to curb the ability to move in and out of trackers when the accounting test was negative one year and positive the next.¹²⁶

114. In its reply argument, ATCO Gas stated:

ATCO Gas notes that the Commission has set an annual PBR plan with an annual rate setting mechanism. ATCO Gas does not know how a K factor could be calculated or incorporated into rates based on some multi-year grouping and accounting test, and submits that this recommendation of the CCA is completely inconsistent with the PBR Plan in place.¹²⁷

115. ATCO Gas further noted that analyzing K factor amounts is not the correct means to determine if expenditure patterns are erratic. ATCO Gas explained that the correct method to determine if expenditure patterns are erratic is to review the expenditure patterns themselves, which ATCO Gas has provided in its business cases. ATCO Gas noted that the CCA has not challenged the expenditure patterns of any of the capital tracker programs.¹²⁸

Commission findings

116. With respect to the CCA's observation that higher level grouping of projects would reduce the effect of the erratic nature of certain capital investment that "can occur naturally," the Commission is not prepared to direct a change in grouping to avoid this result. The Commission agrees with ATCO Gas's assertion that the record does not include any evidence that ATCO Gas has been manipulating its capital spending in order to maximize negative trackers. The fact that higher level groupings might eliminate or smooth the effect associated with erratic capital investment should not replace the principles upon which groupings are made.

117. With regard to the CCA's proposal that multiple years be grouped for the purpose of the accounting test or that a higher threshold be applied to capital trackers that were not included in the previous year's rates, the Commission considers that this proposal would constitute a major change to the approach to grouping approved in Decision 2013-435, and is, therefore, rejected.

6 Project assessment under Criterion 1 – the project must be outside of the normal course of the company's ongoing operations

118. As discussed in Section 3 of this decision, consistent with paragraph 841 of Decision 2013-435, each of ATCO Gas's projects or programs proposed for capital tracker treatment will

¹²⁵ Exhibit 89.01, CCA argument, paragraphs 38 and 43.

¹²⁶ Exhibit 89.01, CCA argument, paragraph 129.

¹²⁷ Exhibit 94.01, ATCO Gas reply argument, paragraph 112.

¹²⁸ Exhibit 94.01, ATCO Gas reply argument, paragraph 104.

be evaluated against the project assessment requirements of Criterion 1. The purpose of the project assessment is to demonstrate that a project proposed for capital tracker treatment is required in order to maintain utility service at adequate levels, as required by paragraph 594 of Decision 2012-237. In addition, if approval is being sought for an already-completed project that has not received prior approval for capital tracker treatment, then the applicant must demonstrate that the actual scope, level, timing and costs of the project were prudent. If approval is being sought for a project that has not yet been completed, then the applicant must be able to demonstrate that the forecast scope, level, timing and costs of the project are reasonable. As noted in paragraphs 974 and 975 of Decision 2012-237, when applying to true up the costs of a completed project that has previously been approved by the Commission for capital tracker treatment, the applicant must be able to demonstrate that the actual costs were prudent.

119. Although ATCO Gas did not have any capital tracker projects or programs approved in Decision 2013-435, the Commission did approve the need for certain projects or programs in that decision. Accordingly, ATCO Gas's applied-for capital trackers in the present 2014-2015 capital tracker and 2013 true-up applications can be broadly divided into two categories. The first category consists of applied-for projects or programs for which the Commission confirmed the need as part of its project assessment in Decision 2013-435. The second category consists of projects or programs implemented in 2013, or to be implemented in 2014 or 2015, for which the need has not been previously approved in Decision 2013-435.

120. As also noted in Section 3, for the purposes of the true-up of the 2013 capital tracker projects for which the Commission confirmed the need as part of its project assessment in Decision 2013-435, if there is no evidence on the record of this proceeding demonstrating that a project was not required in 2013, then there is no need to demonstrate that a project was needed in order to provide utility service at adequate levels in 2013. However, the second part of the project assessment under Criterion 1 is still required so that the Commission can be satisfied that the scope, level, timing and the actual costs of the project were prudently incurred.

121. For any new projects in 2013 not previously evaluated in Decision 2013-435, the Commission will undertake assessments with respect to all three criteria for capital tracker treatment, including the need for the project. To that end, a business case and an engineering study will generally aid the Commission in conducting project assessments under Criterion 1.

122. With respect to projects or programs proposed for capital tracker treatment in 2014 or 2015 on a forecast basis, the applicant must satisfy all of the Commission's requirements for the project assessment under Criterion 1. As noted with respect to new 2013 projects and programs, a business case and an engineering study will generally aid the Commission in conducting project assessments under Criterion 1. However, as discussed in Section 3, in those instances where a project or program is part of an ongoing, multi-year program, or if a project or program is of an annual, recurring nature (e.g., relocations) for which the need has been previously approved by the Commission for purposes of capital tracker treatment in Decision 2013-435, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1.

123. ATCO Gas provided a business case together with an engineering study (where ATCO Gas considered either document to be applicable) for each of its projects or programs proposed for capital tracker treatment in 2013, 2014 and 2015. In its business cases, as supplemented by other evidence filed in the proceeding, ATCO Gas has generally provided an assessment of

proposed capital tracker projects consistent with the minimum filing requirement guidelines set out in Section 10.2 of Decision 2013-435.¹²⁹

124. The Commission has evaluated the ATCO Gas business cases, engineering studies, cost related information, and related evidence and argument in view of each of the project assessment minimum filing requirements. However, for the purposes of this decision, the Commission has commented only on those aspects of the minimum filing requirements that the Commission considers are insufficiently addressed by ATCO Gas's evidence or were otherwise raised as an issue in the proceedings. In future capital tracker applications, ATCO Gas should continue to provide similar information with respect to each of the minimum filing requirements, including business cases, engineering studies and cost related information, including costs by cost category, unit costs and historical cost comparators, in sufficient detail to allow an evaluation of the reasonableness of its forecasts and the prudence of its incurred costs.

125. The balance of this section is organized as follows: Section 6.1 deals with common issues related to the project assessment of ATCO Gas's projects, such as inflation assumptions and the issue of whether capital projects originally scheduled for 2013 were deferred into later years. Section 6.2 deals with 2011-2012 and 2013 actual costs. Section 6.3 deals with Deferred Projects. The Commission's project assessment under Criterion 1 of ATCO Gas's projects or programs proposed for capital tracker treatment based on actual capital additions in 2013 or based on a forecast of capital additions in 2014 and 2015, is set out in Section 6.6.

6.1 Inflation

126. ATCO Gas used the following inflation rates for its 2014-2015 forecast costs:

Table 3. Inflation rates for the 2014-2015 forecast

Occupational Labour	3.5%
Supervisory labour	4.0%
Materials, equipment & contractor	2.5%

127. ATCO Gas noted that its occupational labour inflation rate is consistent with the rate specified in its 2014 collective bargaining agreement. ATCO Gas also explained that its higher inflation rate for its supervisory labour is based on inflation forecasts by the Conference Board of Canada and Wynford Group.¹³⁰ For its materials, equipment and contractor category, ATCO Gas stated its actual rate of inflation on this category of costs was 2.6 per cent over the 2010 to 2012 period.¹³¹

Commission findings

128. The Commission recognizes that a portion of ATCO Gas's labour and salary costs are based on the negotiated results of collective bargaining agreements between ATCO Gas and employee unions. Neither the UCA nor the CCA objected to ATCO Gas's inflation escalators for 2014 or 2015.

¹²⁹ Decision 2013-435, paragraph 1092.

¹³⁰ Exhibit 4, application, paragraph 103.

¹³¹ Ibid., paragraph 105.

129. The Commission notes that under PBR, the non-union salary costs are common to forecasting both O&M salary expenses and capital expenditures for projects that are fully funded under the I-X mechanism and those that require incremental funding through capital trackers. Given that these salary costs are common costs, the Commission recognizes there remains an incentive for ATCO Gas to minimize these costs in order to realize potential cost savings under PBR.

130. The Commission agrees that using the labor inflation rates negotiated in the latest collective bargaining agreement along with the slightly higher rate for management staff is reasonable in the circumstances of the present proceeding. The Commission also agrees that it is reasonable for ATCO Gas to base its inflation rate used for materials, equipment and contractor costs on its historical average. Accordingly, the Commission finds the ATCO Gas inflation rates to be reasonable for the purposes of forecasting costs associated with proposed capital tracker expenditures.

6.2 2011, 2012 and 2013 actual costs

131. ATCO Gas noted that the prudence of its capital additions for 2008, 2009 and 2010 was approved in Decision 2011-450. For 2011 and 2012 capital additions, and consistent with past practice, ATCO Gas provided variance explanations of the differences between the actual capital additions incurred and the forecast amounts approved relating to its 2011-2012 GRA. For 2013 capital additions, ATCO Gas provided an explanation of why costs incurred in excess of forecast costs were prudent.

Commission findings

132. The Commission notes that any overspend in 2011-2012 would show up in the first part of the accounting test and be included in the capital tracker calculation. This decision will consider any 2011-2012 overspend, which is included in the applied for capital trackers, in the project assessment sections below.

6.3 Deferred projects

133. During the oral hearing, ATCO Gas stated the following during a discussion with Commission counsel:

Q. Panel, has ATCO delayed any proceeding with any capital projects that are proposed for capital tracker treatment in 2013 because of uncertainty with respect to how the Commission would decide the 2013 capital tracker application?

A. MR. FELTHAM: No, sir.¹³²

Commission findings

134. The Commission has reviewed the projects in detail in the project assessment sections of this decision and accepts ATCO Gas's evidence that it did not defer capital projects planned for 2013 to later years because of uncertainty with regulatory approval of its 2013 capital tracker application.

135. The Commission will discuss the proposed ATCO Gas capital trackers in Section 6.6 below.

¹³² Transcript, Volume 3, page 515, lines 18-23.

6.4 Overhead Allocation

136. In its application, ATCO Gas explained, in general, the process by which it allocates capitalized overhead costs to capital tracker projects in its application. ATCO Gas stated that these costs are allocated to a program based on that program's share of direct costs and that the allocation method does not vary between capital tracker projects and projects that are not applied for as capital trackers.¹³³

137. ATCO Gas provided an example of the allocation of capitalized overhead costs to its New Urban Service Lines project in its application; however, ATCO Gas was unable to provide the same level of information for all its capital tracker projects because it was transitioning to a new budget system, and the data was not readily available.¹³⁴ During the hearing, ATCO Gas confirmed that the method used in allocating these costs remains unchanged from the method approved in ATCO Gas's 2011 and 2012 GRA.¹³⁵

138. The CCA submitted in its evidence, that there was limited information provided by ATCO Gas in support of allocated overhead.¹³⁶ The CCA referred to both allocated overhead and corporate overhead. In a correction to its evidence, the CCA explained that corporate overheads were meant to read "allocated overheads."¹³⁷

139. During the hearing, ATCO Gas explained the level of information provided with regard to the overhead allocation rates:

Q. MR. WACHOWICH: So, Ms. Berger, while I see a breakout and I see percentages, I don't see the support for those percentages.

A. MS. BERGER: Right. So for us to develop those rates, it encompasses looking at our entire capital forecast for all of our programs and coming up with those rates. And as we've indicated and as the Commission has indicated in paragraph 183, the Commission didn't contemplate evaluating the totality of the company's capital forecasts or its entire capital revenue requirement. We would be, essentially, going back to that point of providing our entire capital forecast on record.

Q. But you're asking customers to bear costs at these pooled rates, and you can't tell us how the pooled rates are derived because you're saying to me now, "Well, that would be examining all of the capital." Is that what I hear?

A. MS. BERGER: Well, they're no different than our other internal labour costs, which we're not providing you with detail on. But what you do have in the business cases and in Section 5 is an examination of year-over-year variances and detail of the costs that are all-inclusive for you to evaluate the prudence of those costs.¹³⁸

140. The CCA raised concerns that because a large amount of capital is being funded through capital trackers, there is a decreased incentive to limit overhead costs. The CCA further argued that an increase in the overhead allocation percentages could increase the cost of a capital project so that the project qualifies for funding by way of capital tracker.¹³⁹

¹³³ Exhibit 4, application, paragraph 114.

¹³⁴ Exhibit 4, application, paragraph 110.

¹³⁵ Transcript, Volume 2, page 287, lines 10-12.

¹³⁶ Exhibit 46.01, CCA evidence, page 3.

¹³⁷ Exhibit 79.01, CCA corrections to evidence.

¹³⁸ Transcript, Volume 2, pages 291-293.

¹³⁹ Exhibit 89.01, CCA argument, paragraphs 54-55.

141. In the CCA's opinion, ATCO Gas has not sufficiently supported its overhead allocation calculations and as such, the CCA recommended that ATCO Gas's capitalized overheads be reduced by 20 per cent.¹⁴⁰

142. In response to the CCA, ATCO Gas stated that in order to review how allocated costs were distributed to its capital trackers, a full examination of total allocated costs and total capital costs would be necessary. ATCO Gas explained it did not believe this was the Commission's intention for this proceeding. ATCO Gas submitted that the CCA's recommendation should be rejected and that it had provided sufficient information to allow for parties to determine the reasonableness of its forecasts.¹⁴¹

Commission findings

143. In Decision 2014-373, dealing with AltaGas' 2013-2015 capital tracker applications, the Commission found:

390 The Commission considers that overhead costs are a component of capital additions and, as such, the company is required to demonstrate that those costs are prudent, as it would for any other capital addition costs. In order to do this, the company must provide a listing of the items that make up the overhead pool and provide calculations to show how the overhead rate used to allocate the overhead pool to capital projects is determined. Given the information on overhead calculations included in AltaGas' applications, and the many information requests related to overhead calculations, including the response to CCA-AUI-2(b), the Commission considers that AltaGas has satisfied this requirement, for the purpose of this decision.

391. In future capital tracker applications, in order to demonstrate the reasonableness and prudence of overhead costs, AltaGas is directed to provide its overhead calculations separately, identifying a line item for each of the specific items indicated in its response to CCA-AUI-2(b) in Proceeding No. 3244. The company must also be prepared to explain any significant year-over-year changes in the items that make up the overhead pool. To the extent that a company limits the year-over-year increases to an item in the overhead pool to I-X, as AltaGas has done with inter-affiliate costs, the Commission considers that to be a reasonable approach for capital tracker purposes. However, a company is not required to limit its increases to its overhead items to I-X if it can demonstrate that an increase in excess of this amount is prudent.¹⁴²

144. ATCO Gas submitted that the information it has provided is sufficient and allows for the testing of the reasonableness of its forecasts. ATCO Gas's view was that a review of how overhead costs have been allocated to its capital trackers would require examination of its full capital forecast. ATCO Gas further submitted that it had not changed its allocation methods from its previous GRA, which was approved by the Commission.¹⁴³

145. The Commission agrees with the CCA that ATCO Gas has not demonstrated that its allocated overhead costs are prudent. The total pool of capitalized overhead cost, as well as the allocation of capitalized overhead costs for all capital trackers in total were not provided in this

¹⁴⁰ Exhibit 89.01, CCA argument, paragraph 62.

¹⁴¹ Exhibit 94.01, ATCO Gas reply argument, paragraphs 127-128.

¹⁴² Decision 2014-373, paragraphs 390-391.

¹⁴³ Transcript, Volume 2, page 287, lines 10-12.

application, and detailed information supporting the costs was not provided. In the absence of evidence supporting the allocated overhead costs, the Commission cannot approve any overhead costs in excess of the previous year's amount adjusted by I-X. In future capital tracker applications, adjustments for overhead cost in excess of I-X will require evidence demonstrating this higher level of cost. The Commission does not consider that examining the pool of overhead costs constitutes a review of ATCO Gas's total capital forecast.

146. Regarding the allocation of the pool of overhead costs to capital expenditures, including capital tracker projects, the Commission agrees with ATCO Gas that demonstrating that overhead costs were capitalized and allocated in the same manner approved by the Commission in ATCO Gas's last GRA is sufficient. As such, the Commission accepts ATCO Gas's allocation methodology.

147. In its compliance filing to this decision, ATCO Gas is directed to limit the total pool of overheads for each of 2013, 2014 and 2015 to the lower of the amounts in this application or amounts reflecting increases by I-X, for each year, applied to the 2012 total pool of overheads approved in Decision 2011-450 dealing with ATCO Gas's 2012 rates. This recalculated total pool of overheads should then be allocated to ATCO Gas's 2013 actual capital expenditures and 2014-2015 forecast capital expenditures, including capital tracker projects, consistent with the company's capitalization and allocation methodologies.

148. In the following sections of this decision, the Commission approves certain projects and programs for capital tracker treatment, and approves the actual or forecast capital expenditures for each of these programs or projects. These approvals are conditional on and subject to the direction above requiring the company, in its compliance filing, to recalculate the total pool of overheads to be allocated to ATCO Gas's 2013 actual capital expenditures and 2014-2015 forecast capital expenditures, including capital tracker projects, consistent with the company's capitalization and allocation methodologies.

6.5 Discrepancy in ATCO Gas's capital additions schedules

149. In reviewing the capital expenditures and capital additions in the business cases and the supporting schedules, the Commission noticed that some of the values associated with certain capital projects and programs do not appear to be consistent throughout ATCO Gas's application, including the schedules.

150. For example, in Schedule A2.5 of the application, ATCO Gas provided a schedule showing its 2010 net rate base for programs undertaken since 2001 and the calculation of depreciation expense and accumulated depreciation. Within that schedule, ATCO Gas identified actual and forecast historical capital expenditures for the four programs. Given that the capital amounts are used to calculate depreciation amounts, the capital amounts shown on Schedule A2.5 are likely to be capital additions rather than capital expenditures.

151. In Schedule A5 of the application, ATCO Gas provided a spreadsheet showing its 2013 actual and 2014-2015 forecast rate base by program category. Within that spreadsheet, ATCO Gas provided its capital expenditures and net capital additions for each of the five programs identified.

152. The Commission has prepared the following table summarizing the discrepancies noticed between the capital additions provided by ATCO Gas in Schedule A2.5 and Schedule A5.

Table 4. Discrepancies between capital additions in Schedule A2.5 and Schedule A5¹⁴⁴

Program	Schedule A2.5			Schedule A5			Variance between A2.5 and A5		
	2013 actual	2014 forecast	2015 forecast	2013 actual	2014 forecast	2015 forecast	2013 actual	2014 forecast	2015 forecast
North									
Steel Mains Replacements	19,848	19,240	29,556	19,971	19,240	29,556	123	-	-
Plastic Mains Replacement	13,580	13,333	22,141	13,762	13,333	21,952	182	-	(189)
Line Heater Reliability	1,381	3,346	3,927	1,358	3,346	3,400	(23)	-	(527)
Transmission Driven	2,220	3,907	18,468	6,391	7,314	18,896	4,171	3,407	428
South									
Steel Mains Replacements	4,768	5,977	4,985	4,768	5,977	4,985	-	-	-
Plastic Mains Replacement	12,449	16,354	24,393	14,307	16,354	24,260	1,858	-	(133)
Line Heater Reliability	1,671	4,421	1,966	(1,054)	4,421	2,087	(2,725)	-	121
Transmission Driven	1,915	1,971	25,778	7,154	1,971	23,508	5,239	-	(2,270)

Commission findings

153. The Commission has reviewed the above referenced schedules and observed that the capital expenditure values from the business cases match the capital expenditure values in Schedule A5. However, the Commission has also observed a discrepancy between two of ATCO Gas's schedules, where Schedule A2.5 provides historical expenditures according to the header on the table, although these are actually likely to be capital additions. However, the net capital additions provided in Schedule A5 do not match the amounts on Schedule A2.5.

154. In its compliance filing to this decision, the Commission directs ATCO Gas to explain the discrepancies between these two schedules with respect to capital additions, and to update its schedules with the correct capital additions to make the capital addition values used in each schedule consistent. In the following sections of this decision, the Commission approves certain projects and programs for capital tracker treatment, and approves the actual or forecast capital expenditures for each of these projects or programs on the basis that the capital additions in Schedule A5 are correct. These approvals are conditional on, and subject to, the direction above requiring the company, in its compliance filing, to update its schedules with the correct capital addition values for each project and program. To the extent that the correct capital additions are different from the values in Schedule A5, which currently reconcile to the capital expenditures in each business case, ATCO Gas is directed to provide justification to support the revised amounts. In the event that any amounts are materially different from the values in Schedule A5, the Commission may need to reassess the prudence of 2013 actual costs and the reasonableness of 2014 and 2015 forecast costs.

155. To help alleviate concerns over the consistency of the capital addition values used throughout ATCO Gas's application, for its next capital tracker application, ATCO Gas is

¹⁴⁴ Taken from Exhibit 7, Schedule A2.5 and Exhibit 27.02, Schedule A5.

directed to include a table in each business case outlining capital expenditures and capital additions.

6.6 Assessment of individual capital tracker projects or programs

156. ATCO Gas applied for 18 different capital tracker programs in total for the north and south. For 2013 ATCO Gas applied for eight capital trackers in the north and five in the south. For 2014 ATCO Gas applied for 11 capital trackers in the north and seven in the south. In 2015 ATCO Gas applied for 15 capital trackers in the north and 10 in the south.

6.6.1 Steel Mains Replacement

157. ATCO Gas described its SMR program, historically named the UMR program, as an ongoing program that evaluates installed steel mains and identifies projects that have reached the end of their safe, operable lives and require replacement. The main objective of this ongoing project is to ensure that mains and services lines are removed from service when there are no remaining alternatives to mitigate the increasing risk associated with these assets. ATCO Gas explained that it continues to evaluate its 8,900 kilometres (km) of steel pipe on a regular basis.¹⁴⁵ ATCO Gas provided information as to how the SMR program meets the project assessment test in Section 4.3.1 of the application. Details of the nature, scope and actual work undertaken in this program in 2013 were provided in Section 5.2.1 of the application. The business case was included in Appendix B1. The engineering assessment was provided in Appendix C2.1. There has been no change to the scope of the SMR program as a result of the name change from the UMR program.¹⁴⁶

158. ATCO Gas is applying for capital tracker treatment for the SMR program in 2013, 2014 and 2015. The capital expenditures for ATCO Gas in 2013 were \$20.2 million in the north and \$4.8 million in the south, and are forecast to be at \$18.4 million in the north and \$5.9 million in the south, and \$29.6 million in the north and \$5 million in the south in 2014 and 2015, respectively. Net capital additions for 2013 were \$19.9 million in the north and \$4.8 million in the south and are forecast to be at \$19.2 million in the north and \$6.0 million in the south in 2014 and \$29.6 million in the north and \$5.0 million in the south in 2015.¹⁴⁷

159. In addition to its historical engineering assessment approach to SMR, ATCO Gas proposed a proactive approach to replacing steel mains its 2011-2012 GRA. The proposed proactive approach that would run concurrently with the previously approved historical engineering assessment approach to SMR and was intended to identify and replace an additional approximately 90 km of steel mains each year in order to provide for a planned replacement of aging steel mains over time.

160. The proactive approach was denied in Decision 2011-450. However, the decision was issued on December 5, 2011 and ATCO Gas had completed its 2011 SMR program spending by this date. As a result, ATCO Gas had a significant expenditure associated with this denied proactive program in 2011. This issue is discussed below in Section 6.6.1.2. Section 6.6.1.1 deals with the expenditures made under the historical engineering assessment approach for the years 2011 through 2013 and the forecasts for 2014 through 2015. A further issue raised in this

¹⁴⁵ Exhibit 9, Appendix B1, paragraphs 2 and 4.

¹⁴⁶ Exhibit 4, application, paragraph 120.

¹⁴⁷ Exhibit 8, application, Schedule A5.

proceeding is the use of the demerit point system to determine the need for SMR projects. This issue is discussed below in Section 6.6.1.3.

6.6.1.1 Historical engineering assessment approach to SMR

161. In its business case, ATCO Gas explained the methodology for identifying SMR projects. ATCO Gas explained that it evaluates its pipe system annually. ATCO Gas uses an engineering assessment process, including leak density analysis, field operational data and a demerit point system in identifying and prioritizing steel mains that require replacement under the program. A project may also be considered following the notification of municipal work.¹⁴⁸ ATCO Gas explained that ATCO Gas needs to pay close attention to the municipal work to identify “whether or not the work that’s being proposed is actually a threat to the system,” as municipal work can disturb the system and cause leaks.¹⁴⁹

162. ATCO Gas explained the engineering assessment process in the business case. ATCO Gas considers a number of factors including pipe vintage, pipe material, coating material, coating condition, joining methods, weld condition, service tee fittings, cathodic protection, number and types of repairs, municipal infrastructure work planned in the area, and a detailed leak history. ATCO Gas calculates both leak frequency using a Leak Frequency tool and demerit points using a Demerit Point System, which considers the following eight factors: pipe material, operating pressure, service entry location, installation date, soil type, coating condition, cathodic protection system performance, and below ground leak history. Finally, areas are prioritized for replacement using a combination of leak frequencies and demerit points. Additional consideration may also be given to timing replacement activities with municipal and other ATCO Gas work.¹⁵⁰

163. In response to AUC-AG-38, ATCO Gas noted that the demerit point system is only one tool used and is not determinative of the need for replacement. ATCO Gas explained that demerit point values and leak frequency are calculated largely for comparison to historical projects and that neither is used in isolation to select projects nor is either used to override sound engineering judgement. As such, ATCO Gas does not have a minimum demerit point score that is required before a project can be undertaken.¹⁵¹ ATCO Gas further clarified that the calculation of leak frequency, the calculation of demerit points, and the prioritization of different areas all occur simultaneously during the risk assessment and are used together with the engineering assessment to determine if the pipe is identified for replacement.¹⁵² This conclusion will be documented in the engineering assessment, which allows the reader to “follow along on the thinking of the author, of what’s gone into the particular assessment for the particular community” by pulling together the information from each of the tests done on the area, including leak frequency and the demerit point analysis.¹⁵³

164. In ATCO Gas’s 2011-2012 GRA, the Commission approved forecast capital additions for this program for 2011 in the amount of \$12.9 million, which is composed of \$11.9 million for the SMR program and an additional \$1.0 million for emergency replacements, and for 2012, in the

¹⁴⁸ Exhibit 9, Appendix B1, paragraph 25 and Figure 1.

¹⁴⁹ Transcript, Volume 4, page 574, line 2-22 (Mr. Feltham).

¹⁵⁰ Exhibit 9, Appendix B1, paragraphs 26-27.

¹⁵¹ Exhibit 34.01, AUC-AG-38(b), (d), (e) and (f).

¹⁵² Transcript, Volume 4, page 551, line 5 to page 552, line 9 (Mr. Feltham).

¹⁵³ Transcript, Volume 4, page 554, lines 17-20 (Mr. Feltham).

amount of \$14.0 million, which is composed of \$12.4 million for the SMR program and an additional \$1.6 million for emergency replacements. ATCO Gas's actual capital additions for this project were \$44.2 million in 2011 and \$29.1 million in 2012, a variance of \$31.3 million in 2011 and \$15.1 million in 2012.

165. ATCO Gas explained that the \$44.2 million expenditure in 2011 can be broken down into \$22.8 million on projects that required immediate replacement due to an unacceptable level of risk defined by the previously approved urban mains improvement program, \$1.1 million on emergency replacements, and \$20.3 million on the proactive program, which is discussed in Section 6.6.1.2 below. Accordingly, the variance between the approved amount of \$11.9 million in SMR projects using the historical engineering assessment approach and actual capital additions was \$10.9 million. The variance for emergency replacements was \$0.1 million.

166. The \$29.1 million expenditure in 2012 can be broken down into \$26.7 million on projects that required immediate replacement due to an unacceptable level of risk defined by the previously approved Urban Main Improvement program and \$2.4 million on Emergency Replacements. ATCO Gas explained that since the approved amount is not associated with any specific projects, it cannot provide a detailed variance explanation. Overall, ATCO Gas explained that it spent more on SMR in 2012 than it did in past years because it undertook significantly more work than allowed for in the approved amount.¹⁵⁴ Accordingly, the variance between the approved amount of \$12.4 million in SMR projects, using the historical engineering assessment approach, and actual capital additions was \$14.3 million. The variance for emergency replacements was \$0.8 million.

167. ATCO Gas explained that the approved forecast in 2011 and 2012 was not based on a subset of the projects that were put forward for approval in the 2011-2012 GRA, but rather that the approved forecast amount was based on 2010 actual spending plus inflation. As such, the Commission will need to consider the project management practices and project delivery and execution practices employed by ATCO Gas in order to determine prudence of these expenditures.¹⁵⁵ ATCO Gas submitted that "its entire Capital Project Delivery process demonstrates a careful project identification, planning, execution, monitoring and control process that ensures that costs are incurred in a prudent manner."¹⁵⁶ The ATCO Gas position is reflected in the following exchange with Commission counsel.

Q. All right, sir. And is there an explanation as to the extent there are differences on a project-by-project basis between the actual costs incurred and the estimates for those projects set out in the project assessments?

A. MR. FELTHAM: No, sir. Not on a project-by-project basis. Again, the reasons why the actual costs are prudently incurred are for the reasons identified in Section 5.1, which again is the project management practices and project delivery – project execution practices that ATCO Gas employs for all of its capital work to ensure that the work is completed at the least possible cost.¹⁵⁷

...

Q. Okay. Thank you. But I'm now thinking just about 2011. The engineering assessments on each project have an estimate associated with the project, no explanation, no

¹⁵⁴ Exhibit 4, application, Table 38, Table 39 and paragraphs 560-577.

¹⁵⁵ Transcript, Volume 4, page 590, lines 9-13 and page 590, line 24 to page 591, line 6 (Mr. Feltham).

¹⁵⁶ Exhibit 90.01, ATCO Gas argument, paragraph 115.

¹⁵⁷ Transcript, page 589, line 7 to page 591, line 15 (Mr. Feltham).

breakdown, just an estimate. And the Commission has to determine in this proceeding whether the costs that were actually incurred are prudent. Yes?

A. MR. FELTHAM: That's correct.

Q. So in order to make that assessment, to the extent the Commission would like to understand the reasonableness of the original estimate, how does it go about doing that? The original estimate on a project-by-project basis.

A. MR. FELTHAM: If I may, sir, I think you're making the assertion that adherence to a forecast is evidence of prudence and that in measuring actual expenditures against a reasonable forecast can give some certainty of the prudence of the expenditures. And I guess I would suggest that the project delivery and execution and techniques that ATCO Gas employs, those are the techniques that generate prudently incurred costs. The need for the project, once established, means the project needs to be undertaken. And if the forecast anticipated a particular number of utility crossings or a certain amount of directional drilling and then when the actual work is undertaken and more or less of -- is required resulting in a higher or lower cost, it's that project execution strategies that ensure that the costs incurred will be prudent.¹⁵⁸

168. ATCO Gas further noted that this is not the first time the forecast approved in a GRA was not linked to any specific projects and, in the past, the Commission has approved the additional expenditures based on the fact that the expenditures needed to be done and were prudently incurred, rather than based on a comparison to the approved forecast.¹⁵⁹

169. ATCO Gas confirmed in the following exchange with Commission counsel that the \$22.8million spent by ATCO Gas under the historical engineering assessment approach in 2011 was spent on the same types of projects as completed in earlier years with expenditures of \$9 million in 2008, \$8.5 million in 2009, and \$11.7 million in 2010.¹⁶⁰ Further, that the funds spent in excess of forecast in 2011 were spent on projects using the same engineering assessment processes and procedures as were done in prior years.

Was the \$22.8 million, which ATCO Gas spent in 2011 on projects using historical engineering assessment approach plus the \$1.12 million spent on emergency replacements, spent on the same types of projects and comparable to the amounts listed in Table 37 on page 182 for earlier years, namely 9 million spent in 2009, the 8.5 million spent -- sorry, the 9 million spent in 2008, the 8.5 spent in 2009, and the 11.7 spent in 2010?

A. MR. FELTHAM: Yes, sir.¹⁶¹

...

Q. So if we look again back at 2011, the extra \$10 million spent on the engineering assessment approach projects over the approved amount of 12.9 and the 22.8 actually spent on those projects, plus the emergency repairs, if we start there, were the historical engineering assessment processes and procedures used by ATCO Gas in identifying these projects in 2011 the same as were used in prior years?

A. MR. FELTHAM: Yes, sir.¹⁶²

170. In response to Commission counsel questioning about the cause of this step change in expenditures from the 2008-2010 period to 2011, ATCO Gas explained that while the process

¹⁵⁸ Transcript, page 592, line 22 to page 594, line 1 (Mr. Feltham).

¹⁵⁹ Transcript, Volume 4, page 594, line 15 to page 595, line 24 (Ms. Bayley).

¹⁶⁰ Transcript, Volume 4, page 582, line 19 to page 583, line 3 (Mr. Feltham).

¹⁶¹ Transcript, page 582, line 19 to page 583, line 3 (Mr. Feltham).

¹⁶² Transcript, page 585, lines 13-21 (Mr. Feltham).

used to identify the work for replacement did not change from prior years,¹⁶³ the output of the process was clearly different and the cause is likely aging infrastructure as the increase in 2011 reflects the performance of the system.¹⁶⁴

171. In response to Commission counsel questioning with respect to the fact that projects take approximately a year of planning before implementation, ATCO Gas explained that the design costs associated with any proactive program projects originally planned for 2012 and canceled following Decision 2011-450 would have been pooled and allocated to the SMR program and capitalized with the projects that did proceed. ATCO Gas further confirmed that there would not have been any costs, other than design costs associated with the proactive projects, that did not go forward in 2012.¹⁶⁵ In response to an undertaking, ATCO Gas further noted that the 2012 projects that were assessed and canceled were Sherbrooke, Grovenor, Banff Trail South, Taber 54th St MP and, Red Deer Downtown Central and that the costs incurred in 2011 related to these projects amounted to less than \$25,000.¹⁶⁶

172. ATCO Gas noted that “no party challenged the scope, nature or timing of the actual projects undertaken in 2011 pursuant to the historical engineering assessment approach”¹⁶⁷ and “none of the interveners took issue with the prudence of the 2012 and 2013 SMR Program capital expenditures in their direct evidence nor did they canvas this issue at the oral hearing.”¹⁶⁸

173. In ATCO Gas’s 2013 capital tracker application, ATCO Gas forecast capital additions for this project in the amount of \$23.5 million. ATCO Gas’s actual capital additions for this project were \$25.0 million; a variance of \$1.5 million. Emergency repairs in 2013 amounted to \$1.9 million. ATCO Gas explained that the increase was partly due to a change in procedure for service disconnects. The new procedure calls for ATCO Gas to expose the abandoned main to cap the service in order to eliminate the possibility of gas migrating through the abandoned service and into a residence, thereby increasing the costs.¹⁶⁹

174. A second construction change that caused an increase over the forecast is service line investigation of potential cross bores. In 2013, there were more camera shots taken in the SMR work than anticipated, to check for cross bores.¹⁷⁰ In response to AUC-AG-36, ATCO Gas explained that alternative methods are used prior to the use of camera inspections. ATCO Gas explained that its program was developed through the evaluation of existing programs already in use by other utilities.¹⁷¹

175. A further cause of ATCO Gas exceeding its forecast was the fact that contractor prices increased by more than anticipated.¹⁷² In response to AUC-AG-37, ATCO Gas noted that the

¹⁶³ Transcript, page 585, lines 13-21 (Mr. Feltham).

¹⁶⁴ Transcript, Volume 4, page 586, lines 6-19 (Mr. Feltham).

¹⁶⁵ Transcript, Volume 4, page 578, line 9 to page 579, line 14 (Mr. Feltham).

¹⁶⁶ Exhibit 73.01, ATCO Gas Undertaking 10, page 1.

¹⁶⁷ Exhibit 90.01, ATCO Gas argument, paragraph 112.

¹⁶⁸ Exhibit 90.01, ATCO Gas argument, paragraph 128.

¹⁶⁹ Exhibit 4, application, paragraphs 578-588.

¹⁷⁰ Exhibit 4, application, paragraph 589.

¹⁷¹ Exhibit 34.01, AUC-AG-36(a).

¹⁷² Exhibit 4, application, paragraphs 589-592.

2011 contract had a one-year extension option, but in 2013, ATCO Gas required a re-tendering process that resulted in higher costs.¹⁷³

176. ATCO Gas forecast capital additions associated with this project to be \$24.9 million in 2014 and \$34.6 million in 2015.¹⁷⁴ These numbers are made up of \$23.0 million for 2014 identified projects and \$1.7 million in emergency work for 2014 and \$32.8 million for 2015 identified projects and \$1.7 million in emergency work for 2015.¹⁷⁵ ATCO Gas explained that it uses a cost-per-service forecast for the planned projects in 2014 and 2015 based on actual costs from similar type projects in 2013, adjusted for inflation.¹⁷⁶ The 2014 and 2015 forecasts include the additional costs from the two construction changes made in 2013.¹⁷⁷ In response to UCA-AG-18, ATCO Gas noted that there is lower variation between projects on a cost-per-service basis than there is on a cost-per-kilometre basis, making the cost-per-service approach the better choice.¹⁷⁸ This conclusion is consistent with the Commission's findings in Decision 2013-435 that "the historical average cost per km ... does not appear to provide a reasonable basis for comparison because the historical average cost per km varies considerably."¹⁷⁹

177. The forecasts for emergency repairs are based on a three-year average, adjusted for inflation.¹⁸⁰ In response to AUC-AG-34, ATCO Gas explained, given that the average age of the ATCO Gas steel system continues to increase every year, it has no reason to believe that emergency replacements will decline and the three-year average approach to forecasting emergency replacements remains appropriate.¹⁸¹ ATCO Gas used 2010, 2011, and 2012 to create the 2014 and 2015 forecasts. The forecast was not updated to include 2013 actuals after they became available.¹⁸²

178. ATCO Gas noted that "neither the CCA nor the City of Calgary took issue with the need, scope, or forecast for the 2014 and 2015 SMR Program."¹⁸³

179. The UCA raised an issue with regard to the adequacy of alternatives considered, which is addressed in Section 10.3 of this decision and an issue with the demerit point system and leak frequency information, which is addressed in Section 6.6.1.3 of this section. Further, Mr. Bell, on behalf of the UCA, stated his concern with the large increase in the SMR program from 2013 and 2014 to 2015. He noted that in the north, the program increases from \$19 million in 2013 and 2014 to \$29 million in 2015, which is a 54 per cent increase. He noted that nine projects, out of a total of 23 projects, proposed for 2014 and 2015 have a 10-year corrosion leak frequency of zero and one project has a two-year corrosion leak frequency of zero.¹⁸⁴

180. In its rebuttal evidence, ATCO Gas explained that while these projects do not have any corrosion leaks, they do have mechanical fitting leaks. ATCO Gas further explained that once

¹⁷³ Exhibit 34.01, AUC-AG-37.

¹⁷⁴ Exhibit 4, application, paragraph 144.

¹⁷⁵ Exhibit 9, Appendix B1, paragraph 14.

¹⁷⁶ Exhibit 9, Appendix B1, paragraph 39 and 46.

¹⁷⁷ Exhibit 34.01, AUC-AG-35(d).

¹⁷⁸ Exhibit 36.02, UCA-AG-18(e).

¹⁷⁹ Decision 2013-435, paragraph 638.

¹⁸⁰ Exhibit 9, Appendix B1, paragraph 39 and 46.

¹⁸¹ Exhibit 34.01, AUC-AG-34.

¹⁸² Transcript, Volume 4, page 610, lines 4-20 (Mr. Feltham).

¹⁸³ Exhibit 90.01, ATCO Gas argument, paragraph 102.

¹⁸⁴ Exhibit 38.02, UCA evidence, pages 12-14.

mechanical fittings start to fail it is difficult to continue cathodic protection and that failed mechanical fittings can cause an electrical break in the cathodic protection of pipe.¹⁸⁵ In response to the UCA's position that ATCO Gas has not provided sufficient evidence for the increase, ATCO Gas explained that it has "filed detailed engineering assessments demonstrating the need, scope and timing of each and every SMR area undertaken in 2013 and planned for 2014 and 2015" and that the increase in costs is largely due to an increase in the amount of work required.¹⁸⁶

181. The UCA also expressed concern about the lack of correlation between the leak frequency and demerit point scores.¹⁸⁷ ATCO Gas explained that "pipe networks that don't leak enough to merit the maximum demerit point score were not identified for replacement. Therefore, differences in demerit point scores among those networks are due to things other than leak frequency."¹⁸⁸ The UCA remained unconvinced in its reply argument, stating that:

... the overall demerit scores do not assist in making distinctions with respect to the leakiness of pipes. ATCO Gas has provided insufficient evidence regarding the other factors on which it relies to identify the leakiness of pipe for replacement.¹⁸⁹

182. The UCA stated its overall view that "the business case for the SMR Program is deficient, and does not satisfy the requirements of the project assessment test contemplated in Decision 2013-435"¹⁹⁰ and that "that the business case does not support the inclusion of the Steel mains program as a Capital Tracker."¹⁹¹

183. With the exception of grouping concerns, concerns surrounding the adequacy of alternatives, issues with respect to the proactive program and issues with the demerit point system, which are addressed in Section 5, Section 10.3, Section 6.6.1.2, and Section 6.6.1.3, respectively, of this decision, the CCA and Calgary did not raise any issues with respect to the SMR Program.

Commission findings

184. In 2011, ATCO Gas had approved forecast capital additions for this program using the historical engineering approach in the amount of \$12.9 million, which is composed of \$11.9 million for the SMR program and additional \$1.0 million for emergency replacements expenditures. It had actual capital additions of \$22.8 million in projects completed using the historical engineering approach and \$1.1 million on emergency replacements. The variance results in an overage of \$10.9 million in projects completed using the historical engineering approach and an overage of \$0.1 million in emergency replacements. The Commission has reviewed the evidence on the record, including the costs variance analysis, testimony on the processes and procedures by which projects are identified and carried out, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the

¹⁸⁵ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraphs 133-134.

¹⁸⁶ Exhibit 94.01, ATCO Gas reply argument, paragraph 165.

¹⁸⁷ Exhibit 87.02, UCA argument, paragraph 40.

¹⁸⁸ Exhibit 94.01, ATCO Gas reply argument, paragraph 167.

¹⁸⁹ Exhibit 91.02, UCA reply argument, paragraph 19.

¹⁹⁰ Exhibit 87.02, UCA argument, paragraph 42.

¹⁹¹ Exhibit 91.02, UCA reply argument, paragraph 25.

capital additions overages in 2011 were prudent. The Commission will consider the capital additions made in 2011 under the proactive approach in Section 6.6.1.2 below.

185. In 2012, ATCO Gas had approved forecast capital additions for this program in the amount of \$14.0 million, which is composed of \$12.4 million for the SMR program and additional \$1.6 million for emergency replacements expenditures. It had actual capital additions of \$26.7 million in projects completed using the historical engineering approach and \$2.4 million on emergency replacements. The variance results in an overage of \$14.3 million in projects completed using the historical engineering approach and an overage of \$0.8 million in emergency replacements. The Commission has reviewed the evidence on the record, including the costs variance analysis, testimony on the processes and procedures by which projects are identified and carried out, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions overages in 2012 were prudent.

186. The need for the SMR program was previously approved in Decision 2011-450 and in Decision 2013-435.¹⁹² However, in Decision 2013-435, the Commission could not assess the reasonableness of the forecast costs for this project given the insufficient documentation supporting the 2013 forecast expenditures. As noted in Section 3, if the need for a project in 2013 was previously established in Decision 2013-435 and if there is no evidence on the record of this proceeding demonstrating that the project was not in fact required in 2013, then there is no need to demonstrate again that a project is needed in order to provide utility service at adequate levels in 2013. The Commission finds no evidence on the record of this proceeding to indicate that the SMR project was not required in 2013. Accordingly, the project continues to satisfy the requirement of Criterion 1 that the project is needed in 2013.

187. Although ATCO Gas is not required to demonstrate the need for the SMR program, it must still provide sufficient evidence to demonstrate that the scope, level, timing and actual costs of the program were prudent in 2013.

188. The Commission has reviewed the scope, level, and timing of the SMR projects and the actual capital additions of \$23.1 million completed in 2013 using the historical engineering assessment approach and the actual capital additions as a result of emergency repairs of \$1.9 million in 2013 and notes that ATCO Gas has provided a greater amount of detail in its business cases and engineering study than it had with the prior capital tracker application.

189. With regard to the UCA's concern that the forecast costs for the north increase sharply from 2014 to 2015, the Commission notes that the UCA did not provide any evidence with regard to any of the individual projects that it proposes do not require replacement in 2015. The Commission accepts ATCO Gas's explanation for the increase in 2015 planned expenditures.

190. With regard to the UCA's statement that ATCO Gas had provided insufficient evidence on factors other than leak frequency, that it relies upon to identify pipe for replacement, the Commission notes that ATCO Gas provided detailed engineering analysis in its business case for the project that contained information on other factors such as pipe vintage, pipe material, coating material, coating condition, joining methods, weld condition, service tee fittings,

¹⁹² Decision 2013-435, paragraph 636.

cathodic protection, number and type of repairs, proximity to schools and hospitals and the existence of municipal work. The Commission considers ATCO Gas to have provided an adequate level of detail on the factors that resulted in the decision to proceed with replacement.

191. In light of the evidence supporting the 2013 SMR and emergency repair projects carried out in 2013, including the business case, information responses, rebuttal evidence, costs variance explanations, testimony on the processes and procedures by which projects are identified and carried out, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model, the Commission considers that the scope, level, timing and actual costs of the project in 2013 to be prudent. Accordingly, the Commission finds that this project satisfies the project assessment requirement of Criterion 1 in 2013.

192. Although the Commission has approved the prudence of the 2013 SMR project, the Commission requires further information with respect to this project in future true-up proceedings. ATCO Gas provided a detailed breakdown of costs for the 2014 and 2015 forecasts, but ATCO Gas did not provide a similar level of detail for the 2011-2013 actuals. As noted during the oral hearing,¹⁹³ this lack of detail makes it difficult to address concerns around backup calculations. The Commission directs ATCO Gas to provide a greater level of detail on its actual costs in future capital tracker true-up applications in order for the Commission to be able to assess actual costs and cost variances adequately.

193. ATCO Gas requested capital tracker treatment for this program in 2014 and 2015. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project or program, or if the project or program is of an annual, recurring nature that has previously been approved for capital tracker treatment, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the SMR program is not required to continue in 2014 or 2015. Accordingly, the Commission finds that the program is needed in 2014 and 2015.

194. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015 to be reasonable.

195. ATCO Gas's forecast capital additions associated with the identified projects for this program are \$23.0 million in 2014 and \$32.8 million in 2015. ATCO Gas's forecast capital additions associated with emergency repairs for this program are \$1.7 million in 2014 and \$1.7 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs, testimony on the processes and procedures by which projects are identified and carried out, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also reviewed ATCO Gas's forecast methodology based on a cost-per-service forecast and use of a three-year average forecast for emergency repairs. The Commission finds the total annual cost forecast in 2014 and 2015 to be reasonable.

196. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the SMR program are

¹⁹³ Transcript, Volume 4, page 605, lines 11-15.

reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this project satisfies the project assessment requirement of Criterion 1 for 2014 and 2015.

197. With respect to the capital additions for this program, the Commission has noticed a discrepancy between Schedule A2.5 and A5. This issue is addressed in Section 6.5.

6.6.1.2 2011 proactive approach to SMR

198. In the 2011-2012 GRA, leading to Decision 2011-450, ATCO Gas applied to advance its SMR program by adopting a new proactive approach that would target complete replacement of all its existing steel mains and services within the next 100 years by replacing approximately 90 km of urban mains each year.¹⁹⁴

199. The forecast costs associated with pursuing the proactive SMR approach were \$50.2 million and \$62.3 million for 2011 and 2012, respectively. ATCO Gas proposed this proactive approach due to concerns with its rapidly aging infrastructure. ATCO Gas classifies vintage steel pipe as pipe over 60 years old.¹⁹⁵ ATCO Gas referred to a graph that demonstrated that as time passes, the amount of pipe that is classified as vintage steel pipe in service was increasing at a rate almost 10 times anything experienced by ATCO Gas in prior years.¹⁹⁶ ATCO Gas submitted that the graph clearly supported the requirement for the proactive approach to SMR.

200. In Decision 2011-450, the Commission did not accept the need for, nor the timing of, the replacement of ATCO Gas's steel mains under the proactive approach (the proactive program).¹⁹⁷ The Commission was "not persuaded by ATCO Gas's evidence that there is either an immediate need to address the fact that infrastructure is aging or that resources may be constrained in the future in a manner that would prevent addressing the issue as it arises."¹⁹⁸ The Commission further stated three deficiencies in the ATCO Gas evidence:

- "ATCO Gas failed to demonstrate that there is a need for the program or that the existing or status quo approach to dealing with the aging of its urban mains system is not adequate.
- ATCO Gas has failed to address how the proposed program would affect customers economically in the long run.
- ATCO Gas has failed to fully examine or consider any alternatives to its proposal."¹⁹⁹

201. As noted above, in Section 6.6.1, Decision 2011-450 was issued on December 5, 2011 and ATCO Gas had completed its 2011 SMR program spending by this date. ATCO Gas explained that it spent \$20.3 million on the proactive program prior to the release of Decision 2011-450 in 2011. In the hearing in this proceeding, ATCO Gas confirmed that none of the projects completed under the 2011 proactive program would have been done under the historical

¹⁹⁴ Decision 2011-450, paragraph 95.

¹⁹⁵ Proceeding 969, Exhibit 163.01, ATCO Gas rebuttal evidence, paragraph 53.

¹⁹⁶ Decision 2011-450, paragraph 99.

¹⁹⁷ Decision 2011-450, paragraph 123.

¹⁹⁸ Decision 2011-450, paragraph 125.

¹⁹⁹ Decision 2011-450, paragraph 128.

engineering assessment approach in 2011.²⁰⁰ Since the incurred expenditures form part of the rate base calculations that are used in the second component of the accounting test, it is necessary for the Commission to make a determination on the prudence of these expenditures in order to determine the correct K factor for the SMR program.

202. In response to Commission counsel questioning with respect to why ATCO Gas spent \$20.3 million on a new program prior to Commission approval, ATCO Gas explained that it was “acting reasonably in light of the information available” and that it was responding to the rapidly increasing inventory of old pipe and the fear that at some point, ATCO Gas would not be able to keep up.²⁰¹ ATCO Gas further explained that it was ATCO Gas’s opinion that the pipe replaced in the 2011 proactive program would need to be replaced in the “near future.”²⁰² However, when asked if all these projects would have been done shortly after 2011 under the historical engineering assessment approach, had they not been completed under the 2011 proactive approach, Mr. Feltham, on behalf of ATCO Gas, responded “I don’t know”²⁰³ and “I don’t think I can know nor anyone else.”²⁰⁴ He further elaborated:

We only know the results of the decisions we've taken and not the results of the decisions we haven't taken. And ATCO Gas decided to replace this pipe and replaced this pipe based on the information available at the time, and customers have been enjoying the benefit of the reduced risk.²⁰⁵

I think Mr. McNulty asked me if I could confirm that it would have for sure happened, and I said I couldn't, and I abide by that; I can't. I don't know if -- those pipe networks, if we would have left them in place, how exactly they would have performed. I can tell you that at the time we thought they were our next-worst systems.

We continued on with pipe that needed to be replaced in 2012. We replaced pipe that needed to be replaced in 2013 and replaced pipe in 2014 as well -- the year is almost done -- and forecast to continue to have more pipe that needs to be replaced in 2015. So I don't know in which years those particular projects would have popped up, but I would expect they would have.²⁰⁶

203. While the Commission cannot know in what year the 2011 proactive projects would have been completed under the historical engineering assessment, it is relevant to observe what became of the 2012 proactive projects that were canceled following Decision 2011-450. ATCO Gas confirmed that none of the additional 2012 projects that were scheduled for completion under the proactive program in 2012 that were cancelled have since then been actually carried out.²⁰⁷

204. With respect to the 2011 proactive program expenditures, Mr. Feltham noted that “no asset lasts forever” and that this pipe “would need to be replaced at some point.”²⁰⁸ Following from this assumption, when asked how ATCO Gas would be able to account for the costs that

²⁰⁰ Transcript, Volume 4, page 582, lines 13-16 (Mr. Feltham).

²⁰¹ Transcript, Volume 4, page 598, lines 11-25 (Mr. Feltham).

²⁰² Transcript, Volume 4, page 599, lines 18-25 (Mr. Feltham).

²⁰³ Transcript, Volume 4, page 601, lines 4-12 (Mr. Feltham).

²⁰⁴ Transcript, Volume 4, page 602, line 18 (Mr. Feltham).

²⁰⁵ Transcript, Volume 4, page 602, lines 4-9 (Mr. Feltham).

²⁰⁶ Transcript, Volume 4, page 858, lines 5-19 (Mr. Feltham).

²⁰⁷ Transcript, Volume 4, page 602, line 23 to page 603, line 3 (Mr. Feltham).

²⁰⁸ Transcript, Volume 4, page 861, line 5 and page 860, lines 24-25 (Mr. Feltham).

were incurred under the proactive program in a hypothetical situation where the Commission determined that the costs were not approved as prudent in 2011, Ms. Berger stated:

In your hypothetical situation, if it was viewed those costs should not have occurred in 2011, we would have to remove the costs from the 2011 rate base. As Mr. Feltham indicated, we would look to demonstrate that those expenditures would have occurred at some point, be it 2012, '13, '14, so reapply to have them reinstated in a future period.²⁰⁹

205. Under the same hypothetical situation, when asked how ATCO Gas might be able to determine the cost to customers that resulted from the decision to replace the steel mains in 2011 rather than at some later date, Ms. Berger noted:

The challenge might be figuring out when exactly those costs might have been incurred and then trying to back up from there to come up with a difference. That may be a challenge. There would have to be some type of assumptions made.²¹⁰

206. ATCO Gas was requested by way of undertaking, to assume when the mains would have been replaced under the historical engineering assessment approach and to provide its view about how it might undertake estimating the isolation of the incremental cost to consumers of advancing the replacements to 2011 rather than doing them at a later date.²¹¹ Noting that ATCO Gas was directed to pick a hypothetical year and show how the accounting could be completed,²¹² for the purpose of its undertaking, ATCO Gas assumed the expenditures would have been incurred evenly over the years from 2012 to 2014.²¹³ These years were provided as an example only and were not tested by the interveners or the Commission in subsequent information requests.

207. ATCO Gas proposed the following method:

1. Calculate the accounting test and K factors as it has done in the application (include the \$20.3 million in 2011). This ensures the net rate base continuity schedules included in the current and future capital tracker applications can reconcile and agree to ATCO Gas' actual rate base and to current and future Rule 005 filings.
2. Calculate the impact on the K factor of including these expenditures in alternate years.
3. Reduce the requested K factor in Step 1 above by the impact calculated in Step 2 to determine the net K factor to be recovered from customers. This would be performed each year until the adjustment to the K factor is insignificant.²¹⁴

208. The UCA submitted that ATCO Gas has not provided sufficient evidence to establish the capital costs to be prudently incurred and as such, "the capital costs included in the 2012 actual rate base that relate to the proactive SMR Program denied by the Commission in Decision 2011-450 should be excluded for purposes of the Capital Tracker calculation."²¹⁵

²⁰⁹ Transcript, Volume 4, page 861, lines 13-19 (Ms. Berger).

²¹⁰ Transcript, Volume 4, page 863, lines 7-11 (Ms. Berger).

²¹¹ Transcript, Volume 4, page 863, lines 12-19.

²¹² Transcript, Volume 4, page 869, line 23 to page 870, line 1.

²¹³ Exhibit 75.01, ATCO Gas Undertaking 17, page 1.

²¹⁴ Exhibit 75.01, ATCO Gas Undertaking 17, page 2.

²¹⁵ Exhibit 87.02, UCA argument, paragraph 43.

209. The UCA submitted that ATCO Gas had not met its onus when it stated that it was acting reasonably in terms of safety and cost efficiency based on the information it had available at the time.²¹⁶ The UCA noted that the onus is on ATCO Gas to show that the proactive program was prudent and stated:

The evidence put forward by AG in the 2011-2012 GRA was determined by the Commission to not meet the onus under the prudence test. If AG is now relying upon the same evidence, it would again fail the prudence test in respect of the proactive SMR Program. If AG is now relying on better evidence that does, in its view, meet the prudence test, and this was evidence that was available to AG in 2011 but not included in its 2011-2012 GRA, then the UCA submits that AG has failed to meet its onus under Criterion 1; AG should have brought forward this evidence in the 2011-2012 GRA, thereby obtaining approval of its proactive SMR Program, which could, therefore, have been undertaken earlier.

Moreover, if AG is now relying on evidence that was not available in 2011, but arises from its subsequent experiences in 2012 and 2013, that is not an appropriate basis for meeting its onus. As pointed out by the Chair at the oral hearing, AG cannot rely on its subsequent experience in 2012 and 2013 to justify a decision made in 2011, since the test of prudence requires “putting yourself in the position of the decision-maker at the time the decision was made with the information at hand in 2011.”²¹⁷

210. ATCO Gas further stated that customers have in fact received benefits from ATCO Gas’s proactive SMR work.²¹⁸ However, the UCA noted that ATCO Gas has not put forward any concrete evidence in this respect.²¹⁹

211. The CCA noted that all additions to rate base must be used and required to be used. The CCA submitted that the findings in Decision 2011-450 should stand. As such, the \$20.3 million should be excluded from rate base and there shouldn’t be a phase in of capital.²²⁰ ATCO Gas noted that mains installed as part of the proactive work undertaken in 2011 are currently in use and are required to be used and further, if the work was not completed in 2011, it would have been required to be completed in the near future.²²¹

212. Calgary submitted that incorporating actual additions in rate base should take place at the time of rebasing when determining the opening rate base for the next PBR term. Calgary further submitted that incorporating these expenditures into the accounting test requires the Commission to make a determination of prudence, which would vary Decision 2011-450.²²² ATCO Gas noted that the Commission did not test the prudence of the 2011 expenditures in Decision 2011-450, rather the Commission denied the basis for the forecast costs.²²³

²¹⁶ Exhibit 91.02, UCA reply argument, paragraph 28.

²¹⁷ Exhibit 91.02, UCA reply argument, paragraphs 30-31.

²¹⁸ Transcript, Volume 4, pages 599-601.

²¹⁹ Exhibit 91.02, UCA reply argument, paragraph 32.

²²⁰ Exhibit 89.01, CCA argument, paragraph 152.

²²¹ Exhibit 94.01, ATCO Gas reply argument, paragraph 153.

²²² Exhibit 88.01, Calgary argument, paragraphs 175-176.

²²³ Exhibit 94.01, ATCO Gas reply argument, paragraph 85.

Commission findings

213. In Decision 2011-450, the Commission found that the evidence on the record did not support the timing or the extent of the proposed proactive program.²²⁴ The Commission agrees with the UCA that ATCO Gas is essentially relying on the same evidence and argument it used in the 2011-2012 GRA.

214. While the Commission continues to support the finding of Decision 2011-450, that need for the proactive approach to SMR had not been adequately demonstrated by ATCO Gas at the time that the projects were carried out, the Commission agrees with ATCO Gas that the “pipe would have needed to be replaced at some point anyway”²²⁵ and that “customers have been enjoying a benefit of the reduced risk.”²²⁶ Customers are benefiting as a result of the replacement of older pipe with certain known deficiencies with newer pipe. The Commission also finds credible the following testimony of Mr. Feltham:

I can tell you that at the time we thought they were our next-worst systems.

We continued on with pipe that needed to be replaced in 2012. We replaced pipe that needed to be replaced in 2013 and replaced pipe in 2014 as well -- the year is almost done -- and forecast to continue to have more pipe that needs to be replaced in 2015. So I don't know in which years those particular projects would have popped up, but I would expect they would have.²²⁷

215. The Commission notes that in its application ATCO Gas provided details on its 2011 projects replaced under the proactive program.²²⁸

Table 5. 2011 SMR projects

		Number of services	Actual cost-per service (\$)	Actual costs (\$000)
City	Neighbourhood			
Holden	Holden	130	11,376	1,479
Calgary	Bowness	328	9,748	3,197
Calgary	Capital Hill	899	6,650	5,978
Lethbridge	Mountainview #1 and #2	297	7,571	2,249
Black Diamond	Black Diamond	194	10,891	2,113
Red Deer	Woodlea-Waskasoo	357	10,254	3,656
Tofield	Tofield	114	4,775	1,45
Ryley	Ryley	9	16,403	148
Total		2328		20,276

216. The Commission notes the average cost per service for 2011 under the proactive program was \$9,709.²²⁹ In its application, ATCO Gas provided its 2013 SMR actual cost per service.²³⁰

²²⁴ Decision 2011-450, paragraph 127.

²²⁵ Transcript, Volume 4, page 600, lines 24-25.

²²⁶ Transcript, Volume 4, page 602, lines 4-9 (Mr. Feltham).

²²⁷ Transcript, Volume 4, page 858, lines 5-19 (Mr. Feltham).

²²⁸ Exhibit 8, application, page 185.

²²⁹ Average of all 2011 cost-per-service column.

Table 6. 2013 SMR forecast and actual number of services

Project	Forecast no. services	Actual no. services	Forecast cost/service	Actual cost/service
			(\$)	
Whitehorn	597	422	6,850	8,000
Dominion Industrial	107	105	22,000	23,900
Delton Phase 1	556	553	7,400	8,300
Delton Phase 2	574	579	6,850	8,300
Belmead	376	401	8,900	8,200
Prince Rupert	301	336	7,400	10,100
Total	2511	2396		

217. The actual average cost per service in 2013 was \$11,133, while the forecast average cost per service was \$9,900. The Commission notes that the forecast was determined by using actual costs from 2011 and 2012 projects.²³¹ The actual costs per service for the 2011 proactive replacement projects were lower than both the forecast and actual costs for projects completed by ATCO Gas in 2013. The Commission has also reviewed the costs of the forecast capital additions in light of the evidence supporting these costs, testimony on the processes and procedures by which projects are identified and carried out referred to in Section 6.6.1.1, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. On this basis, the Commission finds the actual costs incurred by ATCO Gas in 2011 for its proactive replacement projects, to be prudent.

218. Accordingly, while the Commission expressly does not approve as prudent the timing of when the facilities were constructed and put into service under the proactive program, the Commission does approve the scope and incurred actual costs of the of the 2011 expenditures on the proactive program. The Commission is prepared to allow recovery of the capital additions over a future period, given that the replaced pipe was "the next-worst systems"²³² and recognizing that the pipe would have needed to be replaced at some future date in any case. However, what is in question, is the date at which the pipe would otherwise have been replaced.

219. Since it is not possible for ATCO Gas to determine precisely when the new pipe would have been needed, the Commission must use its judgement to develop a reasonable estimate in order to properly determine when these costs should flow into the rate base of the utility. ATCO Gas filed an undertaking assuming a collection period of 2012 to 2014. The Commission continues to have reservations with respect to this period, given that the 2012 projects planned for the proactive approach have still not been implemented. After considering the totality of the evidence on this matter, the Commission finds that \$20.3 million related to the proactive program should be added to rate base over the time period of 2015 to 2017, in three equal installments.

220. The Commission agrees with the method proposed by ATCO Gas in Exhibit 75.01, which calculated the incremental cost to consumers of advancing the replacements to 2011 rather than doing them at a later date. The Commission directs ATCO Gas to use this accounting

²³⁰ Exhibit 8, application, page 190.

²³¹ Exhibit 8, application, paragraph 580.

²³² Transcript, Volume 4, page 858, lines 5-19 (Mr. Feltham).

method in a compliance filing, assuming the expenditures would have been incurred evenly over the three years 2015, 2016 and 2017.

221. In shifting the collection of the \$20.3 million from 2011 to the later period of 2015 to 2017, the Commission does not approve the collection of carrying costs.

6.6.1.3 Demerit point system

222. In Decision 2013-435, the Commission noted the following:

636. The Commission continues to accept the need for the UMR program previously approved in Decision 2011-450, and finds that the demerit point system and associated leak and engineering studies remain an acceptable method for identifying sections of ATCO Gas' urban mains that require replacement. The Commission notes the information provided in UCA-AG-06 Attachment (b) and encourages ATCO Gas to provide similar information on its demerit score calculations in future applications. ...²³³

223. While the Commission concluded that the demerit point system was an acceptable method for identifying replacement requirements, ATCO Gas was steadfast that it is not able to draw definitive conclusions from the demerit point system alone.

224. In response to Commission counsel questioning, Mr. Feltham noted that the demerit point system, which hasn't been changed since it was developed in the 1990s, is dated and contains a number of factors that are less relevant than they used to be. Examples of this include the fact that there is no longer bare steel on the system and that the service entry location is starting to become irrelevant as the MRRP moves more and more meters outside.²³⁴ Mr. Feltham confirmed that the demerit point system, as currently structured, is not very helpful to the internal decision-making process.²³⁵

225. In response to Commission counsel questioning about how the demerit point system could be changed and improved to become more meaningful and helpful for the company going forward, Mr. Feltham noted that he isn't sure what changes could be made to the demerit point system such that the end result could be used as a decision maker.²³⁶ However, he noted that all other factors currently considered outside the demerit point system, such as municipal work, population density, and cathodic protection, could be built into a demerit point system.²³⁷

226. While leak frequency is often considered separately in an engineering assessment, it is also a factor in the demerit point system. However, its inclusion in the demerit point system doesn't appear to add much value as explained by ATCO Gas:

As shown in the Demerit Point System Table at the back of the engineering assessments, leak frequency can make up a maximum of 40 points. In nearly every circumstance, the pipe identified for replacement has a leak frequency that has 40 points associated with it. Thus, the variation in Demerit Point Score is due to other factors.²³⁸

²³³ Decision 2013-435, paragraph 636.

²³⁴ Transcript, Volume 4, page 570, line 21 to page 572, line 3 (Mr. Feltham).

²³⁵ Transcript, Volume 4, page 572, lines 19-24 (Mr. Feltham).

²³⁶ Transcript, Volume 4, page 577, lines 5-8 (Mr. Feltham).

²³⁷ Transcript, Volume 4, page 577, lines 9-15 (Mr. Feltham).

²³⁸ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 137.

227. Mr. Feltham further explained this point in response to UCA cross-examination:

But the simplest explanation to Mr. Bell's finding -- and it's really not surprising -- is that the methods that ATCO Gas uses to identify pipe -- steel pipe that's at the end of its life and presents an unacceptable level of risk is to look for the leakiest point. So in nearly every circumstance, the neighbourhoods or networks that are put forward for replacement have earned the maximum amount of points on a demerit-point scale.²³⁹

228. While the demerit point system could be improved, ATCO Gas noted in its reply that “pipe networks that don’t leak enough to merit the maximum demerit point score were not identified for replacement.”²⁴⁰ ATCO Gas also reiterated that it is the entire engineering assessment process including engineering judgment, that determines which projects to proceed with and when.

229. The UCA noted in argument that “one has to question how reliable the demerit system is in assessing the ATCO Gas System.”²⁴¹ The CCA and Calgary did not comment on the demerit point system.

Commission findings

230. The Commission notes that there is potential to improve on the current demerit point system in order to make it more helpful in the decision making process at ATCO Gas and for interveners and the Commission when assessing the merit of various proposed projects. ATCO Gas confirmed that there are a number of factors considered in determining whether or not a project should be identified for replacement that could possibly be included in a demerit point analysis.

231. The Commission accepts ATCO Gas’s view that it may not be possible to design a demerit point system that can be used as the sole decision maker in every instance. The Commission considers that the professional judgement of ATCO Gas engineers should continue to play an important role in the assessment of ATCO Gas steel mains. Nevertheless, the Commission considers that using an objective tool, like the demerit point system, to assess the safety and reliability of ATCO Gas’s system that is based primarily on the physical attributes of the pipe being considered and the environment in which it is placed, is helpful in assessing the need for pipe replacements. This type of assessment provides the Commission and interveners with evidence to help verify the reasonableness of proposed capital expenditures. Accordingly, the Commission directs ATCO Gas to reconsider the design of its current demerit point system and to propose revisions to the demerit point system for consideration in its next capital tracker application, including providing suggestions for which factors should be eliminated from, or added to, the system and for changes to current weighting. ATCO Gas should provide reasons for all proposed changes to factors and weightings. ATCO Gas should also provide a timeline for the possible implementation of the revised demerit point system.

232. The Commission notes that ATCO Gas considers leak frequency and the demerit points when writing an engineering assessment, despite the fact that leak frequency is one of the factors considered by the demerit point system. This would appear to be double-counting of the leak frequency data in the face of many other factors that also need to be considered. However, the

²³⁹ Transcript, Volume 2, page 25, lines 6-15.

²⁴⁰ Exhibit 94.01, ATCO Gas reply argument, paragraph 167.

²⁴¹ Exhibit 91.02, UCA reply argument, paragraph 24.

Commission agrees with ATCO Gas that leak frequency is an important piece of data and it can be difficult to give adequate weight to leak frequency data when it is included in the demerit point system. In its proposed revisions to the demerit point system, the Commission directs ATCO Gas to consider whether the leak frequency data should continue to be included in the demerit point system, in addition to considering it separately when completing an engineering assessment. If it prefers to continue to include the leak frequency data in the demerit point system, ATCO Gas shall provide a full explanation as to its reasons.

6.6.2 Plastic Mains Replacement

233. The PMR program consists of replacing polyvinyl chloride (PVC) and early generation pre-1978 polyethylene (PE) pipe. ATCO Gas stated that its early plastic pipe systems need to be replaced proactively due to the failure and leak potentials of these types of plastic pipe. The PMR program was formerly named the Rural Mains Replacement (RMR) program. The PMR program is a continuation of the RMR program. ATCO Gas confirmed that there were no changes to the program since the last GRA.²⁴²

234. ATCO Gas is seeking capital tracker treatment for the PMR program for the years 2013, 2014 and 2015. The actual capital expenditures for ATCO Gas in 2013 were \$14.0 million in the north and \$15.5 million in the south, and are forecast to be \$20.1 million in the north and \$14.9 million in the south and \$23.0 million in the north and \$25.4 million in the south in 2014 and 2015, respectively.²⁴³

235. Net capital additions for 2013 were \$13.8 million in the north and \$14.3 million in the south, and are forecast to be \$13.3 million in the north and \$16.4 million in the south in 2014, and \$22.0 million in the north and \$24.3 million in the south in 2015.²⁴⁴

236. ATCO Gas provided evidence with respect to the project assessment test in Section 4.3.2 of the application. A variance analysis is provided in Section 5.2.2 of the application. ATCO Gas provided a business case and engineering study as Business Case B2 in Part 1 of Appendix B. The attachments with the business case included the current project prioritization results for 2014 and 2015 in Appendix B2.1.

237. In the business case, ATCO Gas stated that there are no mitigating alternatives known to extend the life of PVC and pre-1978 PE pipe, and replacement is the only option. ATCO Gas stated that the brittle failure associated with this pipe is unpredictable and can rupture causing a release of gas, property damage, a risk to public safety and affect service to customers downstream of the rupture. This program is divided between planned replacements and emergency replacements.

238. In Decision 2011-450,²⁴⁵ the Commission approved the proactive replacement of these types of pipe over a 20-year period, which began in 2011. From 2011-2013, ATCO Gas replaced approximately 600 km of pipe (170 km in 2011, 160 km in 2012 and 268 km in 2013). At the start of 2014, ATCO Gas had approximately 7,200 km of PVC and early generation pre-1978 PE

²⁴² Transcript, volume 3, page 527 lines- 23-25 to page 528, lines 1-22 (Mr. Feltham).

²⁴³ Exhibit 9, Appendix B Part 1, Business Case B2, Table 8, paragraph 36.

²⁴⁴ Exhibit 8, application, Schedule A5.

²⁴⁵ Decision 2011-450: ATCO Gas (a Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase I, Proceeding 969, Application 1606822-1, December 5, 2011.

mains remaining in service in its system. To complete the program prior to 2030, ATCO Gas must replace an average of 425 km per year for the next 17 years. ATCO Gas initially planned a linear replacement of approximately 400 to 450 km per year. However, issues related to construction and land right negotiations limited the amount of replacement in the initial years. In the application, ATCO Gas proposed to replace 300 km in 2014 and 450 km in 2015.²⁴⁶ ATCO Gas indicated that it is not accelerating this program, but is continuing replacement within the time frame approved by the Commission.

239. In the business case, ATCO Gas stated that in March of 2014, ATCO Gas experienced a crack, or brittle pipe failure, on a 1974 PE main that was 40 years of age, resulting in an explosion at a residence (Stony Plain explosion). Consistent with the other years, ATCO Gas selected the replacement areas for 2014 and 2015 based on relative risk. ATCO Gas prioritizes replacement projects considering the following factors (in order of priority):

- leak history (specifically crack initiated leaks)
- operating pressure
- pipe vintage
- incomplete records (purchased / annexed systems)
- operational factors (including previous squeeze points, non-locatable pipe, rock, impingement, pipe depth, service density)²⁴⁷

240. ATCO Gas stated that as a result of the Stony Plain explosion, ATCO Gas is now giving service density a higher priority in determining what gets replaced first. ATCO Gas stated that the review leading to this change was not complete at the time that ATCO Gas filed its application, and this change will affect the specific pipe that will be replaced in 2015. Despite the fact that the replacement of mains with higher service density is more costly per km, ATCO Gas did not amend its 2015 forecast at this time.²⁴⁸

241. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital expenditures for this program in the amount of \$16.7 million in 2011 and \$19.9 million in 2012. ATCO Gas's actual capital expenditures for this program were \$19.4 million in 2011, and \$20.6 million in 2012, with a variance of \$2.7 million in 2011 and a variance of \$0.7 million in 2012.²⁴⁹

242. In 2011, ATCO Gas stated that it would replace approximately 8,800 km of mains. This estimate has since been refined to be 7,800 km upon further review of installation records. The preliminary unit cost forecast was \$46,250 per km. Actual unit costs in 2011 were \$109,200 per km.²⁵⁰ ATCO Gas explained that after three years of project construction experience, a more accurate estimation of costs became possible. The factors that influenced both the costs and the amount of pipe included higher than anticipated contractor rates, construction season limitations due to agricultural production, land access negotiation delays in rural areas, and housing density. Additionally, the original estimate did not anticipate the amount of directional drilling

²⁴⁶ Exhibit 9, Appendix B Part 1, Business Case B2, paragraph 21.

²⁴⁷ Exhibit 9, Appendix B Part 1, Business Case B2, paragraph 12.

²⁴⁸ Exhibit 34.02, AUC-AG-19(d).

²⁴⁹ Exhibit 4, application, Table 44, paragraph 593.

²⁵⁰ Exhibit 4, application, paragraph 594.

required.²⁵¹ ATCO Gas further noted that it has undertaken efforts to minimize the increased contractor costs, such as encouraging out-of-province bidders.²⁵²

243. In 2012, there was a four per cent variance between the actual expenditures and the approved expenditures where the total number of kilometers replaced was lower than originally planned. Actual expenditures were significantly lower in the north than the approved amount due to a shift of work from the north to the south. South expenditures also exceeded the approved amount, where this shift was in response to construction resource availability throughout the province, and the ability to secure land access.²⁵³ Unit costs in 2012 were higher than 2011, due to higher service density work being undertaken.²⁵⁴ In the 2011-2012 GRA, plastic emergency replacements for 2011 and 2012 were forecast in the Urban Main Improvement and Rural Main Replacements and Relocations programs. Plastic emergency replacements are now included in the PMR program as they share the same driver, asset type and safety risk as the planned replacements, and inclusion of them in the PMR program gives a clearer picture of plastic replacement activity.²⁵⁵

244. In 2013, ATCO Gas is applying for capital tracker treatment for this program for the north and the south. As noted above, actual expenditures were \$29.5 million for 2013. Forecast expenditures were \$29.0 million, with a variance of \$0.5 million. ATCO Gas planned to complete 270 km of replacement province wide, but completed 268 km.

245. For the north, actual expenditures were \$14.0 million and forecast expenditures were \$12.3 million, with a variance of \$1.7 million. For the south, actual expenditures were \$15.5 million, and forecast expenditures were \$16.7 million, with a negative variance of \$1.2 million.²⁵⁶ The variance in the north was due to higher than anticipated contractor rates and project specific scope-related cost increases. Specifically, the number of services replaced per km was higher than anticipated, which increased the total cost per km. For the south, actual costs were below the forecast amount due to lower than expected service density, thereby reducing \$/km costs.²⁵⁷

²⁵¹ Exhibit 4, application, paragraph 595.

²⁵² Exhibit 90.01, ATCO Gas argument, paragraph 143.

²⁵³ Exhibit 4, application, paragraphs 600-602.

²⁵⁴ Exhibit 90.01, ATCO Gas argument, paragraph 143.

²⁵⁵ Exhibit 4, application, paragraphs 599 and 602.

²⁵⁶ Exhibit 4, application, Table 44, paragraph 593.

²⁵⁷ Exhibit 4, application, paragraph 605.

246. ATCO Gas provided the following 2014 and 2015 forecast capital expenditures table showing planned and emergency replacement expenditures, as follows:

Table 7. 2014-2015 PMR capital expenditure forecast²⁵⁸

	2014 forecast	2015 forecast
	(\$000)	
North		
Planned	19,447	22,339
Emergency	657	635
Total	20,104	22,974
South		
Planned	14,455	24,966
Emergency	395	399
Total	14,850	25,365
Total PMR	34,954	48,339

247. ATCO Gas provided the following table showing the planned replacements, with kilometres and units costs:

Table 8. 2014-2015 PMR capital expenditures km and unit cost²⁵⁹

	2014 forecast	2015 forecast
North		
km	150	180
\$000/km	129.6	124.1
Total	19,447	22,339
South		
km	150	270
\$000/km	96.4	92.5
Total	14,455	24,966

248. ATCO Gas currently relies on one year of historic information rather than a three-year average for its replacement costs, which are forecast on a per km basis. Actual 2013 cost per km, adjusted for inflation, were used in developing the 2014 and 2015 forecasts. ATCO Gas stated that the previous year is considered more accurate than a three-year average due to the relative infancy of the program. ATCO Gas stated that over the first two years of the program, actual per unit costs are less representative of future costs.²⁶⁰ Emergency replacements are forecast using a three-year average of past emergency replacements and adjusted for inflation, due to the unpredictable nature of emergency work.

249. In AUC-AG-20(a), ATCO Gas stated that prior to 2011, ATCO Gas had not undertaken large scale PE/PVC replacement projects. Over the initial years of the program, the contractor rates and internal costs for this type of work were not representative of the true cost associated

²⁵⁸ Exhibit 9, Appendix B Part 1, Business Case B2, Table 8, paragraph 36.

²⁵⁹ Exhibit 9, Appendix B Part 1, Business Case B2, Table 6, paragraph 31.

²⁶⁰ Exhibit 10, Appendix B Part 2, Business Case B2.1, paragraph 28.

with the scale of the program approved by the Commission. ATCO Gas stated that 2013 was the third year of the program, and that 2013 internal and contractor costs would be more representative of future costs.²⁶¹

250. In rebuttal evidence, ATCO Gas stated that the forecast cost of the work had not changed. However, the nature of the work performed will be different. This is due to the Stony Plain explosion incident. ATCO Gas stated that the original scope planned for the replacement of 450 km of plastic pipe with 1,575 services in 2015. The revised scope will replace 210 km with 3,150 services in 2015. The service density will vary from 3.5 services/km to 15 services/km.²⁶²

251. In response to Commission council questioning, Mr. Feltham, on behalf of ATCO Gas, stated the following:

MR. FELTHAM: That's right. But again, don't forget why we're doing what we're doing. You know, the refocus and reprioritization of the work that's going on in 2015 is as a result of the house explosion at the beginning of this year....

Q. Thank you, sir. But I'm just trying to understand, is the smaller number of kilometres that you're going to replace in '15 plus the two subsequent years thereafter for a three-year total, is that going to put you behind completing it all within the 17 years remaining? Or are you just moving -- shuffling the work around so that you'll still be expecting to be completed within the same time frame?

MR. FELTHAM: We still expect to be completed in the same time frame.²⁶³

252. Mr. Feltham explained that the limitations in expanding the scope of work and accelerating the projects in 2015 is the timing constraint associated with land negotiations and construction or contractor resources.²⁶⁴ On the contractor side, ATCO Gas spent significant time on contractor development to encourage contractor bids.²⁶⁵

253. In argument, Mr. Bell, on behalf of the UCA, raised an issue with the increase in capital costs for the PMR program in the north, The UCA also stated that ATCO Gas did not adequately demonstrate that the PMR Program met Criterion 1, where the program "could not have been undertaken in the past as part of a prudent capital maintenance and replacement program."²⁶⁶

254. The UCA recommended that the PMR Program be denied due to the following arguments:

- The PMR program was approved in Decision 2011-450, where ATCO Gas relied on a number of reports to establish the need for the PMR program on the basis of evidence relating to the failure of plastic pipe in that proceeding. Some of these reports dated back to 1985.²⁶⁷

²⁶¹ Exhibit 34.02, AUC-AG-20(a).

²⁶² Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 44.

²⁶³ Transcript, Volume 4, page 631, line 18 to page 632, line 17 (Mr. Feltham).

²⁶⁴ Transcript, Volume 4, page 639, lines 19-22 (Mr. Feltham).

²⁶⁵ Transcript, Volume 4, page 640, lines 12-13 (Mr. Feltham).

²⁶⁶ Exhibit 87.02, UCA argument, paragraph 44.

²⁶⁷ Exhibit 87.02, UCA argument, paragraph 45.

- The UCA is not necessarily contesting the current need for the PMR Program, as this is only one consideration under the project assessment test in Criterion 1. The issue is whether the program “could not have been undertaken in the past as part of a prudent capital maintenance and replacement program,” where this issue is particularly relevant in light of evidence that ATCO Gas was aware of potential concerns with plastic pipe failures going back as far as 1985.²⁶⁸ ATCO Gas has not established that the program could not have been undertaken in the past as part of a prudent capital maintenance and replacement program, as required by Criterion 1.²⁶⁹
- AG was aware of issues relating to plastic mains for a considerable period of time dating back to 1985 and prior to the implementation of its PMR program; however, no proactive PMR program was implemented prior to 2011.²⁷⁰
- The fact that the Commission had approved the necessity, scope and timing of the PMR program in the 2011-2012 GTA is not relevant to ATCO Gas’s onus in the present proceeding.²⁷¹

255. ATCO Gas took issue with Mr. Bell’s assertion that insufficient evidence was provided with respect to the increase in costs for the PMR program from 2013, 2014 to 2015 should be denied by the Commission. At the oral hearing, ATCO Gas explained the detailed factors contributing to the need for ATCO Gas to undertake higher customer density areas first, which are more costly due to the nature of the work. This is the primary driver of the increased costs in 2015.²⁷²

256. With respect to Mr. Bell’s position that the PMR program should have been undertaken earlier and, therefore, fails Criteria 1, ATCO Gas stated that this position is inconsistent with previous positions taken by the UCA in the 2011-2012 GRA. In that proceeding, the UCA argued that ATCO Gas has not demonstrated the need for the program either at all, or over the proposed 17-year period. The UCA recommended instead that ATCO Gas be required to undertake further research on the issues and, in the alternative, if the program was approved, that its scope be reduced. The UCA suggested that the program should be scaled back by excluding pipe installed in 1976 and 1977 and drawing a distinction between the older pre-1973 vintages and the 1973 to 1975 vintages. Further, Calgary, in the proceeding, objected to the program on the basis that ATCO Gas had not provided enough evidence to justify increasing the amount of pipe replaced by 100-fold.²⁷³

257. In the 2011-2012 GRA, the Commission approved the program at a slower pace than what ATCO Gas had originally proposed. The Commission approved the program over a 20-year time frame. Therefore, the scope and timing of the PMR program was fully litigated in the 2011-2012 GRA with the Commission determining that ATCO Gas should not replace the plastic mains at a faster pace.²⁷⁴ To deny capital tracker treatment of the PMR program, in this

²⁶⁸ Exhibit 87.02, UCA argument, paragraph 47.

²⁶⁹ Exhibit 87.02, UCA argument, paragraph 48.

²⁷⁰ Exhibit 87.02, UCA argument, paragraph 48.

²⁷¹ Exhibit 93.01, UCA reply argument, paragraph 35.

²⁷² Exhibit 94.01, ATCO Gas reply argument, paragraph 171.

²⁷³ Exhibit 94.01, ATCO Gas reply argument, paragraph 175.

²⁷⁴ Exhibit 94.01, ATCO Gas reply argument, paragraph 177.

proceeding, also suggests that the program in its entirety, should have been complete or substantially complete, by the end of 2012.²⁷⁵

258. At the oral hearing, ATCO Gas was asked by Commission counsel, in the following exchange, to explain the reasons for not proceeding earlier with a PMR program.

Q. It appears from the words that I just quoted that you were aware that a longer-term solution was required, and that an O&M solution would not be good enough in the long run; is that fair?

A. MR. FELTHAM: I think that's a fair statement for all of our assets, sir.

Q. Were you also aware of the safety consequences if the pipe were to crack or fracture due to it being disturbed?

A. MR. FELTHAM: Yes, sir.

Q. Sir, I'm trying to understand, then, why, then, do you talk about your efforts to monitor the situation and doing your best to extend the life of the pipe as long as possible when you knew it had to be replaced and there was a safety risk in keeping it in the ground?

A. MR. FELTHAM: Again, there's a safety risk associated with all of our assets. We transport natural gas, and it's a valuable commodity because of the energy contained within it. So there's a risk associated -- just inherent in the delivery of natural gas.

The reports, again, the first one being 1985 -- I think that was an Alberta Transportation and Utility report -- that just simply identified some questionable resins and manufacturing process and said essentially we think this pipe's not going to last as long as perhaps people had hoped. But that would be a mere -- that report is a mere ten years after it was installed.

And in the business case for plastic mains replacement, there's a figure that shows the need of the curve, which got a lot of attention in the 2011-2012 GRA, and it is quite instructive in that --

Q. I'm sorry, sir. Just so everybody is following this, you're talking about the Business Case 9 -- or Exhibit 9, Business Case B-2, page 7?

A. MR. FELTHAM: Clearly you and I know each other too well. That's exactly right. It's Figure 1, hoop stress versus time to rupture.

Q. I'm sorry for the interruption. Please go on.

A. MR. FELTHAM: So the initial reports that came out from the various agencies said the first report, questionable resin in manufacturing. The pipe might not last as long as originally hoped.

The next report, the National Transportation Safety Board report in 1988 said watch for brittle cracking. And that report focused essentially on installation techniques. And by then, ATCO Gas was already complying with all the installation techniques that were identified there.

²⁷⁵ Exhibit 94.01, ATCO Gas reply argument, paragraphs 178-179.

And then the last official report was the 2004 Alberta Rural Utilities Branch, which said reduce the pressure.

And if you look at the Figure 1 that's included in the business case for plastic mains replacement -- and I'll try and not be terribly technical -- but the hoop stress, which is simply a function of the internal pressure that's on the pipe, that's on the Y axis, and time is on the X axis.

And as long as you're on the initial part, the straight line, the solid straight line of that curve, when the pipe fails it's, generally speaking, a ductile -- ductile failure meaning the plastic stretches.

When you get to the knee of the curve, you get where it says "slit failures only," that's the brittle failure that is what was referenced in the 1988 National Transportation Safety Board report. When you get the brittle failures or the slit failures, you can see that the stress at which the pipe fails decreases quickly.

And so each utility needs to monitor what's going on in its particular circumstance. And when those brittle failures occur, it's an acknowledgment that you've reached the knee of the curve, and it's time to get that pipe out and address the risks then. And that's exactly what ATCO Gas had done and is doing today.

...

Q. MR. MCNULTY: And then when the first one occurred, what investigative procedures would you have followed to determine if this was an isolated incident or whether it was symptomatic of whether you hit the knee in the curve?

A. MR. FELTHAM: Well, it's absolutely the knee of the curve for that particular piece of pipe and in that particular circumstance, and every pipe failure every material failure is investigated by ATCO Gas to determine whether or not it's an isolated incident, a simple one-off material defect, or if it's symptomatic of a larger problem.

So it was the accumulation of data that led to the conclusion in 2010 that ATCO Gas needed to undertake a wide-scale replacement program.²⁷⁶

259. ATCO Gas also stated that "neither the CCA nor the City of Calgary took issue with the need, scope, or the actual or forecast costs of the 2013, 2014 and 2015 PMR program."²⁷⁷

Commission findings

260. In 2011, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$16.7 million. It had actual capital expenditures of \$19.4 million. The variance results in an overage of \$2.7 million. The Commission has reviewed the evidence on the record, including the costs variance analysis and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital expenditure overages in 2011 were prudent.

261. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$19.9 million. It had actual capital expenditures of \$20.6 million. The variance results in an overage of \$0.7 million. The Commission has reviewed the evidence on the record, including the costs variance analysis and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The

²⁷⁶ Transcript, Volume 4, page 616, line 23 to page 621, line 2 (Mr. Feltham).

²⁷⁷ Exhibit 90.01, ATCO Gas argument, paragraph 137.

Commission considers that there is sufficient support for a finding that the capital additions in 2012 were prudent.

262. ATCO Gas requested capital tracker treatment for the PMR program, (formerly referred to as the PE/PVC Rural Main Replacement (RMR) program,) in each of 2013, 2014 and 2015.

263. The need for the PMR program was previously approved in Decision 2011-450 and in Decision 2013-435.²⁷⁸ In paragraph 650 of Decision 2013-435, the Commission stated that it generally accepted the proposed scope of the program, since it was aligned with the 20-year timeframe of the RMR program previously approved by the Commission. However, in paragraph 652 of Decision 2013-435, the Commission determined that it did not have sufficient information to assess the reasonableness of the forecast costs for the RMR project in the 2013 capital tracker application. Consequently, the RMR program, as filed in the 2013 capital tracker application, did not satisfy the project assessment requirement of Criterion 1.

264. As noted in Section 3, if the need for a project in 2013 was previously established in Decision 2013-435 and if there is no evidence on the record of this proceeding demonstrating that the project was not in fact required in 2013, then there is no need to demonstrate again that a project is needed, in order to provide utility service at adequate levels in 2013. Although the UCA argued that the PMR program did not qualify as a capital tracker because the work should have been undertaken earlier, the Commission finds no evidence on the record of this proceeding to indicate that the plastic pipe replacement activities carried out under the PMR project were not required in 2013. Accordingly, the project continues to satisfy the requirement of Criterion 1 that the project is needed in 2013.

265. Although ATCO Gas is not required to demonstrate the need for the PMR program, it must still provide sufficient evidence to demonstrate that scope, level, timing and actual costs of the program were prudent in 2013. The Commission has reviewed the scope, level, and timing of the PMR program and the 2013 actual capital additions of \$28.01 million (\$13.8 million for north and \$14.3 million for south) associated with this program in light of the evidence in respect of the program and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission is not persuaded by the argument of the UCA that ATCO Gas was aware of potential concerns with plastic pipe failures going back as far as 1985 and that, therefore, the PMR program does not qualify for capital tracker treatment, because ATCO Gas has not demonstrated that the program "could not have been undertaken in the past as part of a prudent capital maintenance and replacement program," as required by paragraph 594 of Decision 2012-237. The Commission accepts the evidence of ATCO Gas as stated at the hearing that it acted at a time when academic, industry and regulatory information pointed to the need for a replacement program and the available data supported a replacement program.²⁷⁹ Based on the above analysis, the Commission finds the scope, level, timing and actual costs for this program in 2013 to be prudent. Accordingly, the Commission finds that the PMR program satisfies the project assessment requirement of Criterion 1 in 2013.

266. ATCO Gas requested capital tracker treatment for this program in 2014 and 2015. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project or

²⁷⁸ Decision 2013-435, paragraph 647.

²⁷⁹ Transcript, Volume 4, page 616, line 23 to page 621, line 2 (Mr. Feltham).

program or, if the project or program is of an annual, recurring nature that has previously been approved for capital tracker treatment, in the absence of evidence that the on-going or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the PMR program is not required to continue in 2014 or 2015. Accordingly, the Commission finds that the program is needed in 2014 and 2015.

267. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business cases and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015 to be reasonable.

268. ATCO Gas's forecast capital additions are \$29.7 million (\$13.3 million for the north and \$16.4 million for the south) in 2014, and \$46.3 million (\$22.0 million for the north and \$24.3 million for the south) in 2015.²⁸⁰ The forecast km for replacement are 300 km for 2014, and 450 km in 2015. In rebuttal evidence, ATCO Gas stated that due to the Stony Plain explosion, the 2015 forecast km were reduced to 210 km. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology based on one year of historical information and given that the program is relatively new, the Commission finds the forecast methodology to be reasonable. With regard to the UCA's concern that the forecast costs for the north increase sharply from 2014 to 2015, the Commission accepts the explanation of ATCO Gas with respect to the rationale for the increased costs, and notes the effect of the Stony Plain explosion on these cost estimates. Based on the above analysis, the Commission finds the forecast costs for 2014 and 2015 for the PMR program to be reasonable.

269. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the PMR program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1.

270. With regard to the capital additions for this program, the Commission has noticed a discrepancy between Schedule A2.5 and A5. This issue is addressed in Section 6.5.

6.6.3 Rural Main Replacements and Relocations

271. The Rural Main Replacements and Relocations program consists of rural main relocation projects done at the request of third parties to accommodate infrastructure projects such as road widening, interchanges and bridges, as well as rural main replacements required to increase capacity or to address safety and reliability issues.

272. ATCO Gas is seeking capital tracker treatment for the Rural Main Replacement and Relocations program in 2015 only, and only in its south service area. The actual capital expenditures for ATCO Gas in 2013 were \$4.9 million (\$1.8 million in the north and \$3.1 million in the south), and are forecast to be at \$5.0 million (\$2.6 million in the north and

²⁸⁰ Exhibit 8, application, Schedule A5.

\$2.5 million in the south) in 2014, and \$4.9 million (\$2.5 million in the north and 2.4 million in the south) in 2015.²⁸¹

273. Net capital additions were \$4.8 million in 2013 (\$1.8 million in the north and \$3.0 million in the south), and forecast to be \$5.1 million in 2014 (\$2.8 million in the north and \$2.3 million in the south), and \$4.9 million in 2015 (\$2.5 million in the north and \$2.4 million in the south).²⁸²

274. ATCO Gas provided information with respect to the project assessment test in Section 4.3.8 of the application. A variance analysis for 2013 is provided in Section 5.2.8 of the application. The business case is included in Appendix B8.

275. ATCO Gas stated that relocations constitute the majority of the work undertaken in this program. These relocations are required by municipalities, Alberta Transportation, and landowners where planned development comes into conflict with existing gas facilities. Replacement work primarily consists of capacity upgrades for new or increased loads or alterations to address a non-conformance with Canadian Standards Association (CSA) Z662, or other safety issues. ATCO Gas receives contributions for replacements that are undertaken at the request of third parties, based on the specific agreements with each municipality, Alberta Transportation or landowner. Contributions are also received for capacity upgrades required to serve new or increased non-grantable (commercial) loads.

276. ATCO Gas stated that it has no reasonable alternative but to perform these externally driven projects and must complete them based on requests by third parties or as safety issues or facility non-conformance with standards is discovered.²⁸³

277. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital expenditures for this project in the amount of \$3.9 million in 2011 and \$3.8 million in 2012. ATCO Gas's actual capital expenditures for this project were \$5.6 million in 2011, and \$3.7 million in 2012, with a variance of \$1.6 million in 2011 and a negative variance of \$0.1 million in 2012.²⁸⁴ In 2011, ATCO Gas stated that capital expenditures in the south were \$1.2 million higher than approved costs, and capital expenditures in the north were \$0.5 million higher than approved costs. ATCO Gas explained that both were a result of higher cost requests for relocations by third parties and capacity upgrades by rural customers. ATCO Gas also identified three large projects that contributed to the increased expenditures, which included the Piper Creek Feeder Main project in the amount of \$0.43 million, the Greenhouse Requested relocation project in the amount of \$0.35 million and the Highway 604 Relocations project in the amount of \$0.27 million.²⁸⁵ In 2012, ATCO Gas stated that the variance was not material for either the north or the south. ATCO Gas stated that increased demand was experienced in 2011; however, this did not repeat itself in 2012, and ATCO Gas undertook a normal level of capacity upgrades and relocations at the request of third parties in rural areas.²⁸⁶

²⁸¹ Exhibit 11 Appendix B Part 3, Business Case B8, Table 6, page 12.

²⁸² Exhibit 8, application, Schedule A5.

²⁸³ Exhibit 11 Appendix B Part 3, Business Case B8, paragraph 13.

²⁸⁴ Exhibit 4, application, Table 58, paragraph 679.

²⁸⁵ Exhibit 4, application, paragraph 681.

²⁸⁶ Exhibit 4, application, paragraph 682.

278. In the 2013 capital tracker application, ATCO Gas sought approval of a Third-party Replacements grouping where this included relocation and replacements driven by external parties in both urban and rural areas. However, historically, ATCO Gas included externally driven replacement projects in rural areas in its Rural Main Replacements and Relocations program and its externally driven replacement projects in urban areas in its Urban Main Relocations program.²⁸⁷ ATCO Gas stated that due to limitations in the data required for the rate base allocation exercise required for the accounting test under Criterion 1, ATCO Gas has moved back to its historical grouping of Rural Main Replacements and Relocations. As a result, there was no specific forecast for Rural Main Replacements and Relocations filed in the 2013 capital tracker application.²⁸⁸ ATCO Gas stated that it is not seeking capital tracker treatment of the project for 2013; however, the work undertaken in 2013 was necessary, and costs were prudently incurred. For 2013, the actual capital expenditures were \$1.8 million in the north and \$3.1 million in the south, for a total of \$4.9 million. ATCO Gas indicated that it experienced a large number of rural non-grantable (commercial) upgrades in the south, and that third-party relocations were high. This included an upgrade requested by a large commercial customer near Lethbridge in the amount of \$0.55 million.²⁸⁹

279. ATCO Gas is seeking capital tracker treatment for its Rural Main Replacements and Relocations program for the south for 2015. As noted above, the forecast capital expenditures associated with this project are \$5.0 million for 2014 and \$4.9 million for 2015, with contributions forecast at \$816,000 in 2014 and \$837,000 in 2015.²⁹⁰ For 2014, forecast capital expenditures are \$2.6 million in the north and \$2.5 million in the south. For 2015, forecast capital expenditures are \$2.5 million in the north and \$2.4 million in the south.²⁹¹

280. ATCO Gas explained that it applies a three-year historical average cost forecast methodology. ATCO Gas explained that because of unforeseen events for municipal projects, customer requests, third-party driven work and chance discovery of safety and reliability issues, the required work is not known far enough in advance. The projects undertaken in this program also have short lead times and there is timing uncertainty associated with these projects. Most projects are also undertaken within the same year that they are identified, and the scope of work associated with each project can vary significantly. Therefore, this precludes the use of a unit cost approach to forecasting.²⁹²

281. ATCO Gas noted that “apart from the issue of adequacy of alternatives considered raised by the UCA ... none of the Interveners challenged the need, scope, forecast or actual costs of the Rural Main Replacements and Relocations program, nor did they raise any other specific issues with respect to this program”²⁹³ and further noted that “none of the interveners challenged any of the actual costs of the 2011, 2012 or 2013 Rural Main Replacements and Relocations work, either in their direct evidence or at the oral hearing.”²⁹⁴ The UCA’s concerns with respect to the alternatives considered with respect to proposed capital tracker programs are addressed in Section 10.3.

²⁸⁷ Exhibit 90.01, ATCO Gas argument, paragraph 217.

²⁸⁸ Exhibit 4, application, paragraph 679.

²⁸⁹ Exhibit 4, application, paragraphs 683-684.

²⁹⁰ Exhibit 11, Appendix B Part 3, Business Case B8, Table 2, paragraph 5.

²⁹¹ Exhibit 11, Appendix B Part 3, Business Case B8, Table 6, page 12.

²⁹² Exhibit 11, Appendix B Part 3, Business Case B8, paragraph 14.

²⁹³ Exhibit 90.01, ATCO Gas argument, paragraph 222.

²⁹⁴ Exhibit 90.01, ATCO Gas argument, paragraph 231.

Commission findings

282. In 2011, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$3.9 million. It had actual capital expenditures of \$5.6 million. The variance results in an overage of \$1.6 million. The Commission has reviewed the evidence on the record, including the costs variance analysis and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital expenditures in 2011 were prudent. ATCO Gas had a negative variance for this program in 2012.

283. ATCO Gas has requested capital tracker treatment for its Rural Main Replacements and Relocations program in 2015 only, and only with respect to its south service area.

284. In its 2013 capital tracker application, ATCO Gas previously requested capital tracker treatment for a Third-party Replacements program that included the Rural Main Replacements and Relocations program applied for in the present application.

The need for the larger Third-party Replacements program was accepted by the Commission at paragraph 686 of Decision 2013-435. However, at paragraph 687 of Decision 2013-435, the Commission determined that it did not have sufficient information to assess the reasonableness of the forecast costs for the Third-party Replacements program in the 2013 capital tracker application. Consequently, the Third-party Replacements program, as filed in the 2013 capital tracker application, did not satisfy the project assessment requirement of Criterion 1.

285. ATCO Gas requested capital tracker treatment for this program in 2015 for the south service area. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project program or, if the project or program is of an annual, recurring nature that has previously been approved for capital tracker treatment, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the PMR program is not required in 2015. Accordingly, the Commission finds that the program is needed in 2015.

286. Although ATCO Gas is not required to demonstrate the need for the PMR program, it must still provide sufficient evidence to demonstrate that the scope, level, timing and actual costs of the program are reasonable in 2015. ATCO Gas has provided a greater amount of detail in its business cases than it had with the prior capital tracker application. With respect to the scope, level and timing of this program for 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2015 to be reasonable.

287. ATCO Gas's forecast capital expenditures associated with this program are \$4.9 million in 2015 (\$2.5 million in the north and \$2.4 million in the south). The Commission has reviewed the costs of the forecast capital additions for the south in 2015 in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case based on a three-year historical average. The Commission finds the forecast costs to be reasonable for the south in 2015.

288. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Rural Main Replacements and Relocations program are reasonable as proposed for the south in 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 for 2015.

6.6.4 Transportation Equipment

289. The Transportation Equipment program is for the acquisition of additional and replacement transportation equipment. ATCO Gas indicated that the purchases made under the Transportation Equipment program are largely driven by two criteria, which includes new purchases based on growth and replacements based on ATCO Gas's assessment that the asset is reaching the end of its useful life in accordance with ATCO Gas's replacement guidelines.²⁹⁵

290. ATCO Gas is seeking capital tracker treatment for the Transportation Equipment program for the south service area in both 2014 and 2015.²⁹⁶ The actual capital expenditures for ATCO Gas in 2013 were \$2.5 million in the north and \$3.4 million in the south,²⁹⁷ and forecast to be \$2.2 million in the north and \$2.5 million in the south in 2014, and \$2.6 million in the north and \$2.5 million in the south in 2015.²⁹⁸

291. Net capital additions were \$8.3 million in 2013 (\$3.0 million in the north and \$5.3 million in the south), and forecast to be \$4.1 million (\$2.1 million in the north and \$2.0 million in the south) in 2014, and \$5.0 million (\$2.5 million in the north and \$2.4 million in the south) in 2015.²⁹⁹

292. ATCO Gas provided information with respect to the project assessment test in Section 4.3.16 of the application. A variance analysis was provided in Section 5.2.16 of the application. The business case is included in Appendix B16.

293. ATCO Gas submitted that this program is required to provide the necessary fleet vehicles and trailers for its operations and construction activities, and to maintain service reliability and safety at adequate levels and to address growth. ATCO Gas stated that replacing transportation equipment that has a finite life and purchasing new transportation equipment is required as an aging fleet will eventually become unreliable and unsafe. ATCO Gas maintained that if it were to defer replacement, or not acquire or replace its transportation equipment, it would not be able to provide adequate levels of service. Deferring or not undertaking this program would diminish ATCO Gas's ability to respond to emergencies, carry out inspections, respond to customer requests and perform operations and construction related tasks. Additionally, a deferral would result in high numbers of replacements in future years. ATCO Gas's transportation equipment is currently made up of approximately 1,100 fleet vehicles and 380 trailers.³⁰⁰

294. The alternatives to the recommended approach included doing nothing and leasing vehicles and equipment. ATCO Gas stated that the first alternative of doing nothing will result in

²⁹⁵ Exhibit 90.01, ATCO Gas argument, paragraph 329.

²⁹⁶ Exhibit 4, application, paragraph 754.

²⁹⁷ Exhibit 4, application, Table 72.

²⁹⁸ Exhibit 11, application, Table 1.

²⁹⁹ Exhibit 8, application, Schedule A5.

³⁰⁰ Exhibit 11, Appendix B Part 3, Business Case B16, paragraph 3.

unsafe and unreliable vehicles that will reduce service levels and that owning transportation equipment is more cost effective than leasing.³⁰¹

295. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital expenditures for this project in the amount of \$8.1 million in 2011 and \$8.9 million in 2012. ATCO Gas's actual capital expenditures for this program were \$9.2 million in 2011, and \$8.7 million in 2012, with a variance of \$1.1 million in 2011 and a negative variance of \$0.2 million in 2012.³⁰²

296. In 2011, ATCO Gas stated that the variance between actual and approved expenditures for the north was not material. Transportation equipment actual costs in the south were \$1.2 million higher than approved costs. Since the approved amount was not associated with the purchase of specific vehicles, ATCO Gas stated that it could not provide a detailed explanation of the variance between the approved and actual amounts for 2011. However, ATCO Gas stated that, overall, it spent more on transportation equipment than the approved amount in 2011 because it purchased more vehicles and trailers than what the approved amount would have supported. The additional vehicles purchased in 2011 were required to replace an aging fleet or due to growth.³⁰³

297. For 2012, transportation equipment actual expenditures in the north were \$0.8 million lower than approved and actual expenditures in the south were \$0.6 million higher than approved. ATCO Gas stated that it spent less on transportation equipment than the approved amount in 2012 because it purchased fewer vehicles and trailers than were requested in its application. The vehicles purchased were required to replace an aging fleet or due to growth.³⁰⁴

298. ATCO Gas is not seeking capital tracker treatment for its Transportation Equipment program for 2013. Actual capital expenditures were \$5.9 million, compared to forecast expenditures of \$8.9 million, representing a negative variance of \$3.0 million. In 2013, the actual capital expenditures in the north were \$2.5 million, compared to forecast expenditures of \$3.8 million, with a negative variance of \$1.3 million. ATCO Gas stated that it had planned to purchase 53 vehicles and 11 trailers. However, 32 vehicles and five trailers were purchased instead, which is a reduction of 21 vehicles and six trailers.³⁰⁵ Actual capital expenditures were \$3.4 million for the south, compared to forecast expenditures of \$5.1 million, resulting in a negative variance of \$1.7 million. For the south, ATCO Gas had planned to purchase 65 vehicles and 23 trailers. However, 42 vehicles and six trailers were purchased instead, which is a reduction of 23 vehicles and 17 trailers.³⁰⁶ ATCO Gas also stated that in 2013, its replacement criteria were revised and, as a result, vehicle and trailer life expectancies were extended. This change resulted in a reduction in units replaced in 2013, thereby reducing spending for this program.³⁰⁷

299. In determining its 2014-2015 forecast, ATCO Gas maintained that it uses its revised replacement criteria as a guideline and in some cases units might be replaced earlier or later than planned. ATCO Gas noted that replacement analysis includes evaluating repair history and

³⁰¹ Exhibit 11, Appendix B Part 3, Business Case B16, paragraphs 22-26.

³⁰² Exhibit 4, application, Table 72, paragraph 747.

³⁰³ Exhibit 4, application, paragraphs 749-750.

³⁰⁴ Exhibit 4, application, paragraph 753.

³⁰⁵ Exhibit 4, application, paragraph 756.

³⁰⁶ Exhibit 4, application, paragraph 757.

³⁰⁷ Exhibit 4, application, paragraph 755.

feedback from fleet operators concerning reliability, safety and downtime. ATCO Gas submitted that as a result of its revision to its replacement criteria, the number of units required to be purchased decreased and ATCO Gas reduced its spending.³⁰⁸ ATCO Gas also stated that it enhanced its vehicle condition monitoring process by gathering additional information on each unit, specifically, condition rating (good, fair and poor), which is based on an inspection by a qualified technician.³⁰⁹ This additional information allows ATCO Gas to determine a transportation asset's end of life more accurately without affecting service levels.³¹⁰

300. Forecast costs for 2014 and 2015 are based on a unit cost methodology. These unit costs include the cost of the vehicle or trailer and any ancillary components associated with the vehicle or trailer. Unit costs for large items such as vehicles, manufactured truck bodies or trailers are based on relatively recent bid information. Unit costs for smaller ancillary equipment such as decals or a mounted tool box, are based on the latest historical costs, which are updated on an annual basis as these items are purchased. Internal unit labor costs are based on inflating the previous year's labor amount for similar vehicles and trailers. The forecast cost for each year is calculated by multiplying the number of units by the unit costs and summing the costs for the list of units.³¹¹

301. ATCO Gas outlined its procurement process, as follows:

For all classes of transportation equipment, larger items such as vehicles, trailers and manufactured service bodies, ATCO Gas develops specifications with sufficient detail to ensure that bidders are able to provide pricing on items that will meet ATCO Gas' requirements. In addition, volumes by specification are also provided in an effort to optimize economies of scale. A bid list of potential vendors is compiled. The vendors include those who are qualified and previously have been on the ATCO Gas bid lists, have been added because they are on other ATCO companies' bid lists or have contacted ATCO Gas requesting to be included on the bid list and have been qualified for inclusion. ATCO Gas ensures that an appropriate number of bidders are included for each transportation equipment specification. A Request for Quote (RFQ) is then sent to each vendor on the bid list. A closing date is identified in the RFQ document. Bids that are received by the closing date and time are analyzed to ensure specifications are met. Pricing is reviewed for those bids that meet specifications, and bids are awarded to the lowest cost vendor for each equipment specification.

Smaller items, valued at less than \$5,000 that are associated with outfitting transportation equipment, typically are purchased under blanket purchase orders. The blanket are awarded based on a competitive bidding process.³¹²

302. In the oral hearing, ATCO Gas confirmed that it achieves cost savings on vehicle purchases by selecting the lowest bidder from a closed bid process.³¹³ ATCO Gas also stated that it receives price concessions based on the aggregate potential purchase levels of the ATCO Group of Companies.³¹⁴

³⁰⁸ Exhibit 11, Appendix B Part 3, Business Case B16, paragraph 35.

³⁰⁹ Exhibit 34.02, AUC-AG-17(h).

³¹⁰ Exhibit 11, Appendix B Part 3, Business Case B16, paragraph 18.

³¹¹ Exhibit 34.02, AUC-AG-18(f).

³¹² Exhibit 34.02, AUC-AG-18(b).

³¹³ Transcript, Volume 5, page 764, lines 7-12.

³¹⁴ Exhibit 90.01, ATCO Gas argument, paragraph 336.

303. In argument, ATCO Gas referred to the following testimony provided in the 2013 capital tracker proceeding leading to Decision 2013-435, which was the subject of questioning by Commission counsel at the hearing. The testimony in the previous proceeding was provided by Ms. Wilson, on behalf of ATCO Electric, and related to the company's discretion associated with this type of program and compliance with Criterion 1:

Well, as I mentioned, I thought perhaps company vehicles would be an example of a program that would probably less lend itself to capital tracker criterion probably because there's more discretion associated with those types of programs. It would be, I think, difficult to demonstrate that simply because you didn't buy a truck or two in a year that you are somehow going to impact the utility's ability, for example, to provide utility service at adequate levels. So that would be one where I would say it would be more of a challenge to demonstrate that it meets this first criterion.³¹⁵

304. ATCO Gas stated that Ms. Wilson's comments were provided hypothetically and clearly did not contemplate any significant deferral of transportation equipment. The comments simply pointed out that ATCO Gas expected that the Commission would require the utility to demonstrate that the first Criterion was met and that the purchases or replacements are prudent and necessary. Further, ATCO Gas submitted that Ms. Wilson's testimony was qualified in that it was referring to delaying the purchase of a truck or two in a year.³¹⁶

305. The Commission notes that with the exception of the concerns surrounding the adequacy of alternatives, which is addressed in Section 10.3 of this decision, interveners did not raise any issues with the Transportation Equipment program.

Commission findings

306. In 2011, ATCO Gas had approved forecast capital expenditures for the Transportation Equipment program in the amount of \$8.1 million. It had actual capital expenditures of \$9.2 million. The variance results in an overage of \$1.1 million. The Commission has reviewed the evidence on the record, including the costs variance analysis and the vehicle procurement and project cost management practices outlined in the evidence and in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital expenditure overages in 2011 were prudent. ATCO Gas had a negative variance for this program in 2012.

307. ATCO Gas did not previously request capital tracker treatment for the Transportation Equipment program in its 2013 capital tracker application. ATCO Gas is requesting capital tracker treatment for the Transportation Equipment program in the south service area in both 2014 and 2015. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to the Transportation Equipment program and considers that the evidence provided by ATCO Gas supports a finding that the program is required for ATCO Gas to provide adequate service levels in 2014 and 2015 and to prevent a deterioration of service quality.

308. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this

³¹⁵ Proceeding 2131, Transcript, Volume 1, pages 210-211.

³¹⁶ Exhibit 90.01, ATCO Gas argument, paragraph 332.

program and finds the forecast scope, level and timing of the program for 2014 and 2015 to be reasonable.

309. ATCO Gas's forecast capital additions associated with this program are \$5.8 million in 2014 (\$2.3 million in the north and \$3.5 million in the south) and \$6.0 million in 2015 (\$2.4 million in the north and \$3.6 million in the south). The Commission has reviewed the costs of the forecast capital additions for the south in 2014 and 2015 in light of the evidence supporting these costs and the vehicle procurement and project cost management practices outlined in the evidence and in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case based on ATCO Gas's procurement methodology and its unit cost forecast methodology. The Commission finds the forecast costs for 2014 and 2015 to be reasonable.

310. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Transportation Equipment program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 for 2014 and 2015.

6.6.5 Service Line Replacements and Improvements program

311. The Service Line Replacements and Improvements program consists of projects replacing or altering service lines because of safety, reliability or capacity issues, or as a result of a customer request. Replacements or alterations of service lines with safety, reliability or capacity issues are typically identified through field observations while completing inspections or other work at the same location. Customer driven alterations are the result of customer requests for service line relocations, often as a result of home renovations, landscaping or the construction of additions, decks or garages. For customer requested relocations, a contribution is required. The contribution is based on a contract price determined by a field estimate.

312. ATCO Gas is seeking capital tracker treatment for the Service Line Replacements and Improvements program for the years 2013, 2014 and 2015. The actual capital expenditures for ATCO Gas in 2013 were \$5.9 million (\$2.4 million for the north and \$3.4 million for the south), and \$5.8 million in 2014 (\$2.3 million for the north and \$3.5 million for the south), and \$6.0 million in 2015 (\$2.4 million for the north and \$3.6 million for the south).³¹⁷

313. Net capital additions were \$5.9 million in 2013 (\$2.4 million in the north and \$3.4 million in the south), and \$5.8 million (\$2.3 million in the north and \$3.5 million in the south) in 2014, and \$6.0 million (\$2.4 million in the north and \$3.6 million in the south) in 2015.³¹⁸

314. ATCO Gas provided information with respect to the project assessment test in Section 4.3.10 of the application. A variance analysis was provided in Section 5.2.10 of the application. The business case is included in Appendix B10.

315. ATCO Gas explained that this project is required for ATCO Gas to maintain service to existing customers with changing load requirements, and to allow for relocations at the request

³¹⁷ Exhibit 11, Appendix B Part 3, Business Case B10, Table 6, page 10.

³¹⁸ Exhibit 8, application, Schedule A5.

of customers, to comply with regulatory requirements and to ensure natural gas service is provided in a safe, reliable and cost effective manner. The only alternatives examined by ATCO Gas included a “do nothing” option or the recommended approach of completing service replacements and improvements as they are identified or requested by ATCO Gas or by customers. ATCO Gas stated that a “do nothing” approach is not viable because ATCO Gas must maintain the current process for completing the work as identified or requested.

316. In ATCO Gas’s 2011-2012 GRA, the Commission approved forecast capital expenditures for this project in the amount of \$5.0 million in both 2011 and 2012. ATCO Gas’s actual capital expenditures for this project were in the amount of \$5.1 million in 2011 and \$5.6 million in 2012, with a variance of \$0.1 million in 2011 and \$0.6 million in 2012.³¹⁹ ATCO Gas proposed that the variance is not material for 2011.³²⁰ For 2012, ATCO Gas explained that the 2012 actual costs were \$0.4 million higher in the south than approved due to an increase in the volume of work associated with redevelopment in established neighborhoods in Calgary. The variance in the north was not material for 2012.³²¹

317. In 2013, ATCO Gas stated that it did not include this project as a capital tracker project in the 2013 capital tracker application.³²² In the application, ATCO Gas provided a high level forecast of \$5.2 million for 2013, for comparison. The actual capital expenditures for this project were \$5.9 million, representing a variance of \$0.6 million. For the north, ATCO Gas submitted forecast costs in the amount of \$3.4 million and actual costs in the amount of \$2.4 million, with a variance of \$1.0 million. ATCO Gas explained that lower costs experienced in the north were a result of decreased redevelopment activity, reducing requests for service alterations in the Edmonton area. This decreased activity was partially offset by increased activity in the Yellowhead and Fort McMurray regions.³²³ For the south, ATCO Gas forecast costs were in the amount of \$1.8 million and actual costs in the amount of \$3.4 million, with a variance of \$1.6 million. ATCO Gas explained that actual costs were higher in the south due to increased alteration activity in northwest Calgary and in Lethbridge. ATCO Gas also undertook a large scale relocation project at the Calgary International Airport, which cost \$0.084 million as part of large infrastructure project at this site.³²⁴

318. In the 2014-2015 capital tracker application, forecast capital expenditures associated with this program are \$5.8 million for 2014 and \$6.0 million for 2015, with contributions of \$2.2 million in 2014 and \$2.4 million in 2015.³²⁵ For 2014, forecast capital expenditures are \$2.3 million in the north and \$3.5 million in the south. For 2015, forecast capital expenditures are \$2.4 million in the north and \$3.6 million in the south.

319. ATCO Gas explained that it uses a three-year historical average forecast cost methodology. ATCO Gas explained that it has to respond to unforeseen events such as customer requests or inspection results, where work is typically identified and completed within the current year, as both the number of service line alterations and the scope of each alteration are not known far in advance.

³¹⁹ Exhibit 4, application, Table 63, paragraph 695.

³²⁰ Exhibit 4, application, paragraph 696.

³²¹ Exhibit 4, application, paragraph 697.

³²² Exhibit 4, application, paragraph 698.

³²³ Exhibit 4, application, paragraph 700.

³²⁴ Exhibit 4, application, paragraph 701.

³²⁵ Exhibit 11, Appendix B Part 3, Business Case B10, Table 1, page 3.

320. The Commission notes that with the exception of the concerns surrounding the adequacy of alternatives, which is addressed in Section 10.3 of this decision, interveners did not raise any issues with the Service Line Replacements and Improvements program.

Commission findings

321. In 2011, ATCO Gas had approved forecast capital expenditures for the Service Line Replacements and Improvements program in the amount of \$5.0 million. It had actual capital expenditures of \$5.1 million. The variance results in an overage of an immaterial amount of \$0.1 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$5.0 million. It had actual capital expenditures of \$5.6 million. The variance results in an overage of \$0.6 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

322. ATCO Gas requested capital tracker treatment for the Service Line Replacements and Improvements program in each of 2013, 2014 and 2015. ATCO Gas did not previously request capital tracker treatment for the Service Line Replacements and Improvements program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

323. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to the Service Line Replacements and Improvements program and considers that the evidence provided by ATCO Gas supports a finding that the program was required to maintain service reliability and safety at adequate levels during 2013 and to prevent a deterioration of service quality. Further, based on the record of this proceeding, the program remains necessary in 2014 and 2015.

324. The Commission has reviewed the scope, level and timing of the Service Line Replacements and Improvements program carried out in 2013, and the 2013 actual capital additions of \$5.9 million (\$2.4 million in the north and \$3.4 million in the south) in light of the evidence in respect of the program and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission finds the scope, level, timing and actual costs for this program in 2013 to be prudent. Accordingly, the Commission finds that the Service Line Replacements and Improvements program satisfies the project assessment requirement of Criterion 1 in 2013.

325. ATCO Gas also requested capital tracker treatment for this program in 2014 and 2015. As noted above, the Commission finds that the program is needed in 2014 and 2015. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015 to be reasonable.

326. ATCO Gas's forecast capital additions associated with this program are \$5.8 million in 2014 (\$2.3 million in the north and \$3.5 million in the south) and \$6.0 million in 2015 (\$2.4 million in the north and \$3.6 million in the south). The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement,

construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case based on a three-year historical average. The Commission finds the forecast costs to be reasonable.

327. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Service Line Replacements and Improvements program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 for 2014 and 2015.

6.6.6 Transmission Driven

328. This program relates to projects that ATCO Gas must undertake when a transmission company, either ATCO Pipelines or NOVA Gas Transmission Ltd., makes a change to its transmission system that requires a change to ATCO Gas's distribution facilities.

329. ATCO Gas is seeking capital tracker treatment for this program for the years 2013, 2014 and 2015 for the north service area and only for the years 2014 and 2015 for the south service area. Total capital expenditures for the north were \$6.6 million in 2013 and are forecast to be \$8.6 million in 2014 and \$15.5 million in 2015 with net capital additions of \$6.4 million in 2013, \$7.3 million in 2014 and \$18.9 million in 2015. For the south, total capital expenditures were \$4.4 million in 2013 and are forecast to be \$2.6 million in 2014 and \$23.8 million in 2015 with net capital additions of \$7.2 million in 2013, \$2.0 million in 2014 and \$23.5 million in 2015.³²⁶

330. ATCO Gas provided information with respect to the project assessment test in Section 4.3.3 of the application. A variance analysis was provided in Section 5.2.3 of the application. The business case is included in Appendix B3.

331. The most significant projects in this program are the distribution projects required as a result of the ATCO Pipelines Urban Pipeline Replacement (UPR) program to replace and relocate several high pressure pipelines to the transportation and utility corridors in the Calgary and Edmonton areas. ATCO Gas explained that to continue to supply to its customers, this project will require ATCO Gas to relocate and install regulating meter stations and urban feeder mains.³²⁷ ATCO Gas noted that transmission driven capital work has been increasing in recent years with the increased activity around UPR related projects.³²⁸

332. Aside from the UPR related projects, ATCO Gas submitted that it undertakes a variety of additional projects each year due to changes made by the transmission companies. In 2014, there are plans to complete work on the multi-year, transmission driven Southern Extension Replacement project (SERP).

333. ATCO Gas explained that the timing of the Transmission Driven projects are determined by the transmission companies and further noted that it selects the best distribution system

³²⁶ Exhibit 8, Schedule A5.

³²⁷ Exhibit 10, Appendix B3, paragraph 11.

³²⁸ Exhibit 10, Appendix B3, paragraph 15.

alternative to accommodate the changes in the transmission system.³²⁹ To mitigate costs, ATCO Gas indicated that it will repurpose unused transmission pipelines where possible.³³⁰

334. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital additions for this program in the amount of \$13.0 million for 2011 and \$0.7 million for 2012 for the north and \$14.2 million for 2012 for the south. ATCO Gas's actual 2011 capital additions for this program were \$2.6 million and \$0.3 million for the north and south, respectively, a variance of negative \$10.4 million in the north and \$0.3 million in the south. ATCO Gas explained that expenditures in 2011 were below the approved forecast for the north as a result of delays encountered with respect to the UPR program.

335. ATCO Gas's actual 2012 capital additions for this program were \$11.2 million and \$6.2 million for the north and south, respectively. Expenditures in 2012 were above the forecast for the north as a result of overspending by \$10.5 million, and under the forecast for the south as a result of under spending by \$8.0 million, primarily due to the UPR program schedule changes.³³¹

336. In ATCO Gas's 2013 capital tracker application, ATCO Gas forecast capital additions for this project in the amount of \$5.9 million and \$1.8 million for the north and south, respectively. ATCO Gas's actual capital additions for this project for the north were \$6.6 million, a variance of \$0.6 million. ATCO Gas's actual capital additions for this project for the south were \$4.4 million, a variance of \$2.6 million.³³² ATCO Gas explained that expenditures in 2013 were different from its forecast as a result of a combination of over and under spending due to projects undertaken in 2013 that were forecast to occur earlier, delays of projects forecast for 2013 and project costs coming in over and under forecast.³³³

337. With respect to the 2014-2015 capital tracker application, ATCO Gas explained that it creates its forecast using one of four methodologies, or a combination of them, as applicable. A three-year historical average methodology is used for its smaller transmission driven projects. For larger projects, ATCO Gas uses a combination of methodologies, depending on the scope of work required for each project. The methodologies used are based on cost per unit of pipe installed, a lump sum estimate for unusual elements and a rate table using historical costs to estimate the cost of similar installations.³³⁴ ATCO Gas submitted that this is consistent with how it has forecast transmission-driven projects in the past.

338. In argument, Calgary expressed concern with the fact that Transmission Driven project expenditures arise principally from an affiliate project, the ATCO Pipelines UPR project. Calgary maintained that it is not clear whether there has been sufficient evidence placed on the record by ATCO Gas that "the requirements of ATCO Pipe have not been gold plated to allow for increased returns."³³⁵ Calgary further maintained that there appears to be "no linkage or ability to ensure reasonableness of the ATCO Pipe requirements."³³⁶

³²⁹ Exhibit 10, Appendix B3, paragraph 6.

³³⁰ Exhibit 10, Appendix B3, paragraph 11.

³³¹ Exhibit 4, application, paragraphs 607-617.

³³² Exhibit 4, application, paragraph 607.

³³³ Exhibit 4, application, paragraphs 618-621.

³³⁴ Exhibit 10, Appendix B3, paragraphs 27-37.

³³⁵ Exhibit 88.01, Calgary argument, paragraph 70.

³³⁶ Ibid.

339. In reply argument, ATCO Gas stated that Calgary's submissions were without foundation and that the evidence in this proceeding supports the need and scope for this program.³³⁷

340. The Commission notes that with the exception of grouping concerns and concerns surrounding the adequacy of alternatives, which are addressed in sections 5 and 10.3, respectively, of this decision, the CCA and the UCA did not raise any issues with the Transmission Driven program.

Commission findings

341. In 2011, ATCO Gas had approved forecast capital expenditures for the Transmission Driven program in the amount of \$13.0 million. It had actual capital expenditures of \$3.0 million. The variance results in an underspend amount of \$10.0 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$14.9 million. It had actual capital expenditures of \$17.4 million. The variance results in an overage of \$2.5 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

342. ATCO Gas is seeking capital tracker treatment for this program for the years 2013, 2014 and 2015 for the north service area and only for the years 2014 and 2015 for the south service area.

343. In Decision 2013-435, except for the Northwest Edmonton project for which a business case was not provided, the Commission determined at paragraph 679 that the Transmission Driven program was required to maintain service reliability, quality and safety at adequate levels in 2013. However, the Commission could not assess the reasonableness of the forecast costs for this program given the insufficient documentation to support the 2013 forecast expenditures. Consequently, the Transmission Driven program, as filed in the 2013 capital tracker application, did not satisfy the project assessment requirement of Criterion 1.

344. As noted in Section 3, if the need for a project in 2013 was previously established in Decision 2013-435 and if there is no evidence on the record of this proceeding demonstrating that the project was not required in 2013, then there is no need to demonstrate again that a project is needed in order to provide utility service at adequate levels in 2013. The Commission finds no evidence on the record of this proceeding to indicate that the Transmission Driven program was not required in 2013. Accordingly, the program continues to satisfy the requirement of Criterion 1 that the program is needed in 2013.

345. Consistent with the Commission direction in Decision 2013-435, ATCO Gas provided a business case for the Northwest Edmonton project in Appendix C2.2. The Commission has reviewed the business case and the evidence on the record of this proceeding and finds that the information provided by ATCO Gas supports a finding that the Northwest Edmonton project was required to maintain service reliability and safety at adequate levels during 2013.

346. Although ATCO Gas is not required to demonstrate the need for the Transmission Driven program, it must still provide sufficient evidence to demonstrate that scope, level, timing and

³³⁷ Exhibit 94.01, ATCO Gas reply argument, paragraph 61.

actual costs of the program were prudent in 2013. With respect to the scope, level and timing and the actual costs of \$10.9 million (\$6.6 million in the north and \$4.4 million in the south) of projects carried out in 2013, including the Northwest Edmonton project, the Commission has reviewed ATCO Gas's 2013 variance explanations associated with this project and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker. Further, the Commission has evaluated the alternatives considered in each of the business cases for projects in 2013 and agrees with the alternatives selected. The Commission has also reviewed the costs of the actual capital additions for this capital tracker project in light of the evidence supporting these costs, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model and finds the actual costs of the program in the south service area in 2013 to be prudent. Accordingly, the Commission finds that this project satisfies the project assessment requirement of Criterion 1 in 2013.

347. ATCO Gas requested to continue capital tracker treatment for this program in 2014 and 2015. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project or program or, if the project or program is of an annual, recurring nature that has previously been approved for capital tracker treatment, in the absence of evidence that the on-going or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Transmission Driven program is not required to continue in 2014 or 2015. Accordingly, the Commission finds that the program is needed in 2014 and 2015.

348. With respect to the scope, level and timing of this project for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this project and finds the forecast scope, level and timing of the project for 2014 and 2015 to be reasonable.

349. ATCO Gas's forecast capital additions associated with the identified projects for this program are \$11.2 million in 2014 and \$39.4 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery. The Commission has also reviewed ATCO Gas's forecast methodologies for Transmission Driven projects. ATCO Gas uses one of four methodologies, or a combination of them, as applicable for both smaller and larger projects. The Commission finds the forecast methodologies and total annual cost forecast in 2014 and 2015 to be reasonable.

350. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Transmission Driven project are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this project satisfies the project assessment requirement of Criterion 1 in 2014 and 2015.

351. With regard to the capital additions for this program, the Commission has noticed a discrepancy between Schedule A2.5 and A5. This issue is addressed in Section 6.5.

6.6.7 Urban Main Relocations

352. This ongoing program is driven by requests from external parties such as municipalities, Alberta Transportation and private land owners for relocations. ATCO Gas explained that urban main relocations are typically required as a result of road expansion projects, road and

neighbourhood rehabilitations, back lane renewals and deep utility improvements. ATCO Gas noted that it is responsible for the costs of work driven by municipalities and Alberta Transportation. For land owner requests, contributions are received for a portion of the work, based on a contract price determined by a field estimate, and are generally completely offset by contribution.³³⁸

353. ATCO Gas is seeking capital tracker treatment for this program for the years 2013, 2014 and 2015. Total capital expenditures for the north were \$7.6 million in 2013 and are forecast to be \$6.9 million in 2014 and \$6.6 million in 2015 with net capital additions of \$7.3 million in 2013, \$7.0 million in 2014 and \$6.6 million in 2015. For the south, total capital expenditures were \$2.0 million in 2013 and are forecast to be \$3.5 million in 2014 and \$3.4 million in 2015 with net capital additions of \$1.7 million in 2013, \$3.7 million in 2014 and \$3.4 million in 2015.³³⁹

354. ATCO Gas provided information with respect to the project assessment test in Section 4.3.15 of the application. A variance analysis was provided in Section 5.2.15 of the application. The business case is included in Appendix B15.

355. ATCO Gas explained that urban mains relocations are required to maintain distribution gas service to its customers, meet obligations to municipalities and Alberta Transportation, and to facilitate development. ATCO Gas further explained that the timing is driven by these external parties and the distribution project scope is dependent on the scope of these transmission projects.³⁴⁰

356. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital additions for this project in the amount of \$3.2 million for 2011 and \$3.3 million for 2012 for the north and \$4.6 million for 2011 and \$2.0 million for 2012 for the south. ATCO Gas's actual 2011 capital additions for this project were \$6.3 million and \$4.5 million for the north and south, respectively, resulting in a variance of \$3.1 million in the north and negative \$0.1 million in the south. ATCO Gas explained that expenditures in 2011 were above the approved costs for the north as a result of increased activity in Slave Lake and the Edmonton area. ATCO Gas's actual 2012 capital additions for this project were \$4.8 million and \$3.2 million for the north and south, respectively, a variance of \$1.5 million in the north and \$1.2 million in the south. Expenditures in 2012 were above forecast as a result of increased activity in Grande Prairie and the Edmonton and Calgary areas.³⁴¹

357. In ATCO Gas's 2013 capital tracker application, urban mains relocations were forecast under the Third-party Replacements grouping and, as a result, ATCO Gas did not provide a forecast, nor a variance explanation, for the Urban Main Relocations project for 2013. ATCO Gas explained that the data required for the accounting test and its availability necessitated the change in groupings. ATCO Gas's actual capital additions in 2013 for this project were \$7.6 million and \$2.0 million for the north and south, respectively.³⁴²

³³⁸ Exhibit 4, application, paragraphs 442-443.

³³⁹ Exhibit 8, Schedule A5.

³⁴⁰ Exhibit 11, Appendix B, paragraph 11.

³⁴¹ Exhibit 4, application, paragraphs 738-743.

³⁴² Exhibit 4, application, paragraph 737.

358. ATCO Gas explained that because the timing and costs of these projects are difficult to predict due to the short lead time given by the parties and the variability of the types of infrastructure improvements involved, it creates its forecast for this program using a three-year historical average cost methodology.³⁴³

359. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

Commission findings

360. In 2011, ATCO Gas had approved forecast capital expenditures for the Urban Main Relocations program in the amount of \$7.8 million. It had actual capital expenditures of \$10.8 million. The variance results in an overage of \$3.0 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$5.3 million. It had actual capital expenditures of \$8.0 million. The variance results in an overage of \$2.8 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

361. ATCO Gas requested capital tracker treatment for the Urban Main Relocation program in each of 2013, 2014 and 2015.

362. In its 2013 capital tracker application, ATCO Gas previously requested capital tracker treatment for a Third-party Replacements program that included the Urban Main Relocations program applied for in the present application.

363. The need for the larger Third-Party Replacements program was accepted by the Commission at paragraph 686 of Decision 2013-435. However, at paragraph 687 of Decision 2013-435, the Commission determined that it did not have sufficient information to assess the reasonableness of the forecast costs for the Third-party Replacements program in the 2013 capital tracker application. Consequently, the Third-party Replacements program, as filed in the 2013 capital tracker application, did not satisfy the project assessment requirement of Criterion 1.

364. As noted in Section 3, if the need for a project in 2013 was previously established in Decision 2013-435 and if there is no evidence on the record of this proceeding demonstrating that the project was not required in 2013, then there is no need to demonstrate again that a project is needed in order to provide utility service at adequate levels in 2013. The Commission finds no evidence on the record of this proceeding to indicate that the Urban Main Relocation program was not required in 2013. Accordingly, the project continues to satisfy the requirement of Criterion 1 that the project is needed in 2013.

365. Although ATCO Gas is not required to demonstrate the need for the Urban Main Relocation program, it must still provide sufficient evidence to demonstrate that the scope, level, timing and actual costs of the program were prudent in 2013. The Commission has reviewed the scope, level and timing of the project in 2013 as well as the \$9.6 million in actual capital

³⁴³ Exhibit 11, Appendix B15, paragraph 20-21.

additions for this capital tracker project in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission finds that the Urban Main Relocation program satisfies the project assessment requirement of Criterion 1 in 2013.

366. ATCO Gas requested to continue capital tracker treatment for this project in 2014 and 2015. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project or program or, if the project or program is of an annual, recurring nature, that has previously been approved for capital tracker treatment, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. The Commission finds no evidence on the record of this Proceeding to indicate that the Urban Main Relocations program is not required to continue in 2014 or 2015. Accordingly, the Commission finds that the program is needed in 2014 and 2015. With respect to the scope, level and timing of this project for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015 to be reasonable. ATCO Gas's forecast capital additions associated with this project are \$10.4 million in 2014 and \$10.0 million in 2015. The Commission has reviewed the information supporting ATCO Gas's forecasts and finds the total annual forecast costs to be reasonable based on a three-year historical average cost methodology.

367. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Urban Main Relocations program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this project satisfies the project assessment requirement of Criterion 1 in 2014 and 2015.

6.6.8 Meter Relocation and Replacement

368. ATCO Gas described the MRRP as a meter replacement program to address safety concerns associated with line pressure gas inside buildings. The program includes the removal and replacement of the meter, regulator, and associated piping, to building exteriors.

369. ATCO Gas is seeking capital tracker treatment for the MRRP for the years 2013, 2014 and 2015 for both the north and the south. The capital expenditures for ATCO Gas for the north in 2013 were \$12.3 million and are forecast to be \$13.1 million and \$13.5 million in 2014 and 2015, respectively. The capital expenditures for ATCO Gas for the south in 2013 were \$6.6 million and are forecast to be \$11 million and \$11.1 million in 2014 and 2015, respectively. Net capital additions for ATCO Gas in the north in 2013 were \$12.3 million and are forecast to be \$13.1 million in 2014 and \$13.5 million in 2015. Net capital additions for ATCO Gas in the south in 2013 were \$6.5 million and are forecast to be \$11.01 million in 2014 and \$11.08 million in 2015.

370. ATCO Gas provided information with respect to the project assessment test in Section 4.3.4 of the application. A variance analysis was provided in Section 5.2.4 of the application. The business case was included in Appendix B4.

371. The MRRP began in 2003. ATCO Gas submitted that, as of January 1, 2014, 144,527 meter sets have been relocated under this program.³⁴⁴

372. In Decision 2011-450, the Commission approved the MRRP determining:

158. Tier 2 meters exhibit a high risk factor, multiple medium risk factors or both at a single residence. Given the identified level of safety concerns and risk the Commission accepts AG's proposal to replace Tier 2 above ground entry meters.

159. In response to UCA-AG-33(a), the number of Tier 3 meters identified as having medium risk factors is 32,511. The Commission considers that the Tier 3 meters with a medium risk factor should be removed by 2014 as contemplated in the application. The timing of the Tier 3 meter replacements should be coordinated with Tier 2 replacements to achieve efficiencies.

160. The Commission approves the relocation of meters classified as Tier 3 with low risk factors in conjunction with other work such as meter recalls.³⁴⁵

373. In accordance with the Commission's directions, the MRRP involves Tier 2 (T2) and Tier 3 Medium Risk (T3M) meter sets. In addition, some low risk inside meter sets, Tier 3 Low Risk (T3L) and Tier 4 (T4) will be moved each year, either in conjunction with the annual meter recall program, or at sites that present safety issues for customers or ATCO Gas employees, where meter access problems exist, or when operational issues (e.g., leaks) are dealt with and a meter move is completed at the same time.

374. ATCO Gas indicated that during its field testing of T2 and T3M moves in 2012, it identified an occupational health and safety noncompliance with the point-of-release procedure on steel tubing services. As a result of this, ATCO Gas and its contractors' employees were being exposed to greater than allowed levels of natural gas when connecting to existing tubing services. Consequently, work was suspended at these steel tubing sites until a review of work procedures was undertaken and a solution implemented. This created a significant delay in the number of meters that were relocated and reduced the number of meters moved to 7,486 in 2013 with 2013 actual program expenditures being \$18.9 million instead of the \$37.3 million forecast.³⁴⁶ ATCO Gas submitted that it will relocate the remaining 20,453 Tier 2 (T2) and Tier 3 Medium Risk (T3M) meters by the end of 2016.

³⁴⁴ Exhibit 11, Appendix B.4, page 5, paragraph 10.

³⁴⁵ Decision 2011-450, paragraphs 158-160.

³⁴⁶ Exhibit 4, application, paragraph 631.

375. ATCO Gas provided the following summary of historical and forecast expenditures.

Table 9. Historical actual and 2014-2015 forecast expenditures³⁴⁷

	2008	2009	2010	2011	2012	2013	2014 forecast	2015 forecast
	(\$ million)							
North	19.7	13.3	12.4	20.7	12.8	12.3	13.1	13.5
South	19.1	15.1	12.9	15.4	9.2	6.6	11.0	11.1
Total	38.8	28.4	25.3	36.1	22.0	18.9	24.2	24.6

376. ATCO Gas submitted that in 2011, it spent \$36.1 million on the MRRP, compared to \$26.0 million approved in its 2011/12 GRA. ATCO Gas explained that this was because in its 2011-2012 GRA, it sought an approach to the MRRP that included all Tier 1, 2 and 3 sites in the program, with Tier 4 sites to be completed in conjunction with other work at those sites. In 2011, the MRRP was executed by ATCO Gas based on that approach. However, Decision 2011-450, which was issued on December 5, 2011, directed ATCO Gas to undertake medium risk Tier 3 sites (T3M) with the program, and to undertake lower risk Tier 3 sites (T3L) along with other work. Decision 2011-450 and, subsequently, Decision 2012-309 set the approved expenditures at \$26.0 million. In addition, the contractor rates and supplies costs actually incurred in 2011 for the MRRP were higher than forecast, which resulted in a higher unit cost. The north also had higher alteration moves than simple moves, which contributed to higher unit costs.

377. ATCO Gas also provided a variance explanation for 2012, during which it spent \$22 million on the MRRP, compared to \$24.7 million approved in its 2011/12 GRA. In 2012, at the direction of the Commission, ATCO Gas completed the T3M sites only, as part of the MRRP, and began undertaking T3L sites in conjunction with recalls and other related work. Because of this change in approach, ATCO Gas was unable to complete the number of units in 2012 that it had forecast.

378. ATCO Gas submitted that its forecast expenditures for the MRRP are based on a unit cost methodology (i.e., cost per meter move). ATCO Gas used historical average direct costs from each geographical area to calculate the overall weighted average unit cost per move. The direct unit costs were then broken down into different cost categories, which were construction labour and equipment, materials and supplies. The costs were broken down into different categories because inflation rates are different for labour versus non-labour categories. Allocated costs such as project management, engineering, design support, and construction management were pooled and then allocated to each capital program on the basis of direct costs. The forecast number of units is based on the known number of remaining moves, which are split relatively evenly over the remaining three years of the program.

379. The UCA raised an issue with respect to the difference in the pattern of cost increases associated with the MRRP in the north as compared to the south for the forecast years, having regard to historical trends. Mr. Bell on behalf of the UCA, calculated the increase in costs over the years and noted that in 2013, the changes in costs diverge, yielding an increase in costs of 32 per cent in the north in 2014, as compared to a two per cent decrease in the south. Mr. Bell provided the following table:

³⁴⁷ Appendix B.4, Table 6.

Table 10. Changes in cost per unit³⁴⁸

Cost/unit	2010 actual	2011 actual	2012 actual	2013 actual	2014 forecast	2015 forecast
North	\$2,664	\$2,437	\$2,891	\$2,796	\$3,695	\$4,162
South	\$2,552	\$2,154	\$2,475	\$2,640	\$2,569	\$2,782
% change from prior year						
North		-8.52%	18.63%	-3.29%	32.15%	12.64%
South		-15.60%	14.90%	6.67%	-2.69%	8.29%

380. The UCA argued that the testimony of the ATCO Gas witnesses did not adequately address the factors responsible for increasing costs in the north that are unique to that region nor why the cost increases are occurring in the forecast years when they had not occurred historically. The UCA, therefore, made the following recommendation:

Given, the insufficiently explained differences in MRRP Program costs between the North and South and having regard to the fact that the forecasts will be trued up, the UCA is of the view that a more reasonable forecast would be based on historical trends for MRRP Program costs. Accordingly, the UCA is of view that the forecast costs as requested by AG for the MRRP Program should be denied in favour of forecast costs based on historical trends for the MRRP Program in both North and South.³⁴⁹

381. ATCO Gas, in its reply argument, noted the testimony of its witnesses, explaining the divergence in costs and summarized that factors such as increased excavations, tubing tool use, and restoration resulting from backyard work all result in increased costs, which is primarily an issue in the north. Therefore, the cost per move forecast in the north is increasing relative to the south.³⁵⁰

382. The Commission notes that interveners also raised grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively.

Commission findings

383. In 2011, ATCO Gas spent \$36.1 million on the MRRP, compared to \$26.0 million approved in its 2011/12 GRA. The variance results in an overage of \$10 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model.³⁵¹ The Commission finds that there is sufficient support for a finding that the capital expenditures in 2011 were prudent.

384. ATCO Gas is seeking capital tracker treatment for the MRRP for the years 2013, 2014 and 2015 for both the north and the south service areas.

385. The need for the MRRP was previously approved in Decision 2011-450 and in Decision 2013-435 at paragraph 659.

³⁴⁸ Exhibit 0038.02.UCA-3267, intervener evidence of Russ Bell, page 17

³⁴⁹ Exhibit 87.02, UCA argument, paragraph 51.

³⁵⁰ Exhibit 94.01, ATCO Gas reply argument, paragraph 183.

³⁵¹ Exhibit 4, application, Section 5.1.

386. As noted in Section 3, if the need for a program in 2013 was previously established in Decision 2013-435 and if there is no evidence on the record of this proceeding demonstrating that the program was not required in 2013, then there is no need to demonstrate again that a program is needed in order to provide utility service at adequate levels in 2013. The Commission finds no evidence on the record of this proceeding to indicate that the MRRP was not required in 2013. Accordingly, the program continues to satisfy the requirement of Criterion 1 that the program is needed in 2013.

387. Decision 2013-435 also commented at paragraph 662 on the scope, level, timing and forecast costs of the 2013 MRRP, stating:

662. The Commission finds that the proposed scope, level, timing and forecast cost of the MRRP, as proposed for 2013, are reasonable. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1. In its 2013 capital tracker refiling and true-up application, ATCO Gas will be required to demonstrate the prudence of its actual 2013 capital expenditures for the MRRP. ...

388. The actual capital additions for the MRRP in 2013 were \$18.9 million. In this proceeding, ATCO Gas provided information on the cost variance for 2013.³⁵² Based upon the evidence presented in the business case, the costs variance explanation, including the issues with respect to the occupational health and safety concerns with the point-of-release procedure on steel tubing services, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model, the Commission finds the actual costs incurred in 2013 to be prudent.

389. ATCO Gas also requested capital tracker treatment for this program in 2014 and 2015. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project or program or, if the project or program is of an annual, recurring nature that has previously been approved for capital tracker treatment, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the MRRP is not required to continue in 2014 or 2015. Accordingly, the Commission finds that the program is needed in 2014 and 2015.

390. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable.

391. Net capital additions for ATCO Gas in the north are forecast to be \$13.1 million in 2014 and \$13.5 million in 2015. Net capital additions for ATCO Gas in the south are forecast to be \$11.01 million in 2014 and \$11.08 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. With respect to the reasonableness of the increasing cost trend in the north for this program, the Commission considered the following exchange between Mr. Whittal of ATCO Gas and counsel for the UCA:

³⁵² Exhibit 4, application, paragraph 631.

Q. Can you explain why the forecast unit costs in the north are increasing so much faster than the south?

A. MR. WHITTALL: We've outlined that through the business case and through the filing. But in general what is happening in the north is that we are moving into areas where the services are much deeper and the access to the yards or to the meters sets themselves is much more difficult.

As an example in the capital region around the city of Edmonton here, we do not have alley access to most of the yards yet. The mains are in the back, and so we've got to go through -- get to the backyard from the front yard and then do the work in the backyard. And at the same time we're in areas where the mains and the services are much deeper. They require a lot more excavation.

And the level of tubing services that require the use of the tool that we developed to respond to the point-of-release issue has increased as well. So all those factors combined have increased the unit price in the north.³⁵³

392. The Commission accepts the ATCO Gas evidence that deeper and increased excavations, tubing tool use, and restoration resulting from backyard work are leading to increased costs in the north. The Commission has also reviewed the forecasting methodology submitted by ATCO Gas in its business case and finds the forecast methodology to be reasonable. Based on the above, the Commission finds the forecast costs for the MRRP in 2014 and 2015, to be reasonable.

393. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the MRRP are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 in 2014 and 2015.

6.6.9 Regulating Meter Station Improvements

394. Regulating Meter Stations are the facilities required to receive gas on the distribution system from interconnections with the high pressure transmission system, as well as to regulate pressures and meter gas between different pressure distribution systems.

395. ATCO Gas is seeking capital tracker treatment for its Regulating Metering Station Improvements program for the years 2013, 2014 and 2015 for the north service area. The capital expenditures for ATCO Gas in the north in 2013 were \$1.2 million and are forecast to be \$2.3 million in 2014 and \$2.4 million in 2015. Net capital additions for ATCO Gas in the north in 2013 were \$2.5 million and are forecast to be \$0.691 million in 2014 and \$2.35 million in 2015.

396. ATCO Gas provided information with respect to the project assessment test in Section 4.3.7 of the application. A variance analysis was provided in Section 5.2.7 of the application. The business case was included in Appendix B7.

397. ATCO Gas has 4,465 regulating meter stations that are maintained with capital projects under this program. ATCO Gas submitted that this program is necessary to ensure stations are properly equipped to supply safe and reliable natural gas service to customers. Projects under this program are undertaken to address capacity and performance issues.

³⁵³ Transcript, Volume 2, page 218, lines 22-25 and page 219, lines 1-17 (Mr. Whittal).

398. ATCO Gas also provided a comparison of the actual expenditures from 2008 to 2013 and the forecast expenditures for 2014 and 2015.

Table 11. Historical actual and 2014-2015 forecast expenditures

	2008	2009	2010	2011	2012	2013	2014 forecast	2015 forecast
	(\$ million)							
North	2.0	1.6	2.0	1.8	5.5	1.2	2.3	2.4
South	1.7	0.8	0.9	0.9	4.8	0.6	1.0	1.1
Total	3.7	2.4	2.9	2.7	10.3	1.7	3.4	3.4

399. In 2011, ATCO Gas spent \$2.7 million on Regulating Meter Station Improvements, compared to \$2.4 million approved in its 2011-2012 GRA. The variance was a result of a larger amount of work being required in the north, including the upgrade to the Lamont Gate Station (\$0.18 million) to replace inadequate equipment and resolve a ground movement issue, and manufacturing the new Alexis Gate Station (\$0.10 million) to replace the station that was destroyed due to a line heater fire. This higher cost was partially offset by fewer issues being encountered in the south, resulting in lower expenditures.

400. In the cost variance analysis provided by ATCO Gas for 2012, it submitted that it spent \$10.3 million on Regulating Meter Station Improvements, compared to the \$9.9 million approved in its 2011-2012 GRA. Included in both the actual and approved expenditures in 2012 were the costs for the purchase of metering equipment at regulating meter stations from ATCO Pipelines, at net book value. Approximately \$0.3 million of the variance between approved and actual expenditures in 2012 was due to the difference between the estimated and final net book value of the meters purchased.

401. ATCO Gas explained that since this program was not included as a capital tracker in its 2013 capital tracker application, there is no detailed forecast to use for comparison. However, ATCO Gas provided a high level forecast in Appendix F of the 2013 capital tracker application, which it used for comparison purposes. ATCO Gas submitted that in 2013, it spent \$1.7 million on the Regulating Meter Station Improvements program, compared to the \$2.9 million forecast in its 2013 capital tracker application. In 2013, fewer station issues occurred, resulting in lower actual expenditures compared to forecast.³⁵⁴

402. ATCO Gas submitted that work undertaken in this program is driven either by equipment failures or issues identified through inspections, the number of which are not easily predictable. The schedule for completion of work is often constrained by municipal development or landowner requirements. In addition, the scope of work for each station improvement can vary significantly. Some may be a simple valve replacement, while others may involve a complete station rebuild and relocation. As a result, ATCO Gas forecasts the annual costs of the Regulating Meter Station Improvements program using a three-year historical average approach. ATCO Gas also noted that its expenditures for 2012 are an anomaly as they included a one-time purchase of meters at regulating meter stations from ATCO Pipelines. To account for the anomaly, ATCO Gas explained in AUC-AG-9 that it subtracted the acquisition cost of \$7.9 million for the meters from the 2012 total costs of \$10.3 million prior to calculating the

³⁵⁴ Exhibit 4, application, paragraphs 676-677.

three-year historical average that was used to forecast 2014 and 2015.³⁵⁵ ATCO Gas concluded that the forecast for 2014 and 2015 is reasonable given the level of expenditures that has historically occurred.

403. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

Commission findings

404. In 2011, ATCO Gas spent \$2.7 million on Regulating Meter Station Improvements, compared to \$2.4 million approved in its 2011-2012 GRA. In 2012 it spent \$10.3 million on this program compared to \$9.9 million approved in its 2011-2012 GRA. The variance results in an overage of \$0.3 million in 2011 and \$0.4 million in 2012. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital expenditures in 2011 and 2012 were prudent.

405. ATCO Gas is seeking capital tracker treatment for its Regulating Meter Station Improvements program for the years 2013, 2014 and 2015 for the north service area.

406. ATCO Gas did not previously request capital tracker treatment for the Regulating Meter Station Improvements program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

407. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to the Regulating Meter Station Improvements program and considers that the evidence provided by ATCO Gas supports a finding that the program was required to maintain service reliability and safety at adequate levels during 2013 and to prevent a deterioration of service quality. Further, based on the record of this proceeding, the program remains necessary in 2014 and 2015.

408. With respect to ATCO Gas's request for capital tracker treatment for 2013, the Commission has reviewed the scope, level, timing and actual capital additions of \$2.5 million for the Regulating Meter Station Improvements program carried out in 2013 in light of the evidence in respect of the program, including the explanation of variances between 2013 actual and forecast costs, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission finds the scope, level, timing and actual costs for this program in the north in 2013 to be prudent. Accordingly, the Commission finds that the Regulating Meter Station Improvements program satisfies the project assessment requirement of Criterion 1 in 2013.

409. ATCO Gas also requested capital tracker treatment for this program in 2014 and 2015. As noted above, the Commission finds that the program is needed in 2014 and 2015. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has

³⁵⁵ Exhibit 34.02, AUC-AG-29.

reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable.

410. The forecast capital additions associated with this program are \$0.691 million in 2014 and \$2.35 million in 2015. The Commission has reviewed details of ATCO Gas's forecasting methodology submitted in the business case and in AUC-AG-29 and the comparison of forecast expenditures with expenditures that have historically occurred. The Commission finds the forecast methodology and forecast costs for 2014 and 2015 in the north to be reasonable.

411. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Regulating Metering Station Improvements program for ATCO Gas in the north are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 for 2014 and 2015.

6.6.10 New Regulating Meter Stations

412. The capital cost to install new stations or upgrade existing stations to increase flow capacity falls within the New Regulating Meter Stations program. Projects in this program are driven by customer growth but are not directly related to new customer additions.

413. ATCO Gas is seeking capital tracker treatment for the New Regulating Meter Stations program for the years 2014 and 2015 for the north service area. The capital expenditures for ATCO Gas in the north are forecast to be \$1.4 million and \$1.5 million in 2014 and 2015, respectively. Net capital additions for ATCO Gas in the north are forecast to be \$1.58 million in 2014 and \$1.42 million in 2015.

414. ATCO Gas provided information with respect to the project assessment test in Section 4.3.12 of the application. A variance analysis was provided in Section 5.2.12 of the application. The business case was included in Appendix B12.

415. ATCO Gas submitted that it is obligated to complete new regulating meter stations in order to address growth in the gas distribution system. These stations are crucial to regulate the gas pressure safely in the distribution system and they are also used to measure the gas flowing onto the distribution system. The majority of growth related station capacity is driven by land developers and new subdivision growth.

416. ATCO Gas submitted variance explanations for 2011 to 2013. In 2011, ATCO Gas spent \$2.9 million on New Regulating Meter Stations, compared to \$3.6 million approved in its 2011/12 GRA. The actual costs for the north were \$1.0 million lower than approved due to lower new subdivision growth requiring new stations or station upgrades. Some new subdivisions originally planned for 2011 were postponed by developers. The costs in the south were \$0.3 million above forecast due to increased need for station facilities.

417. In 2012, ATCO Gas spent \$4.5 million on New Regulating Meter Stations, compared to \$3.6 million approved in its 2011/12 GRA. The actual costs in the north were \$0.8 million above the approved amount, as there was more new subdivision growth that required new stations or station upgrades, which can be partially attributed to work in 2011 being postponed until 2012. These included the Mitsue Gate Station (\$0.25 million), Remand Centre Gate Station

(\$0.14 million) and the Northport Gate Station (\$0.1 million) in the north. ATCO Gas submitted that the variance between actual and approved costs in the south was not material.

418. In 2013, ATCO Gas spent \$4.0 million, compared to the \$2.9 million forecast in its 2013 capital tracker application. The higher variance was a result of a number of stations that were started in 2013, after being on hold for a number of years. These include the Ft. Saskatchewan Gate Station #5, Gate Station #71947, North Acheson Gate Station and the Edson Gate Station #2.

419. ATCO Gas submitted that forecasts for 2014 and 2015 are determined using a three-year historical average cost approach because it is not in control of the driver or the schedule for completion of the work. New regulating and meter station requirements are dependent on where development occurs and whether the existing infrastructure will support the growth. There is considerable variability in facility requirements, which drives the expenditure levels. The timing of the majority of the work undertaken is driven by the schedules of municipalities and developers. ATCO Gas also submitted that using the three-year average for calculating forecasts is a better alternative to the unit cost approach. The unit cost approach is not appropriate because units of work are not predictable and uniform, and unit costs vary significantly with the scope of work. There is considerable variation in the scope of work, ranging from a simple regulator replacement to increasing existing station capacity, to the installation of a brand new station complete with site development costs.

420. In order to calculate forecasts, the 2010-2012 actual costs were adjusted to direct costs by removing non-direct costs for the respective year. The direct costs were then broken down into the following cost categories: construction, labour and equipment, materials and supplies. The direct costs for the three years were brought to constant dollars and averaged.

421. In AUC-AG-32,³⁵⁶ ATCO Gas provided a list of new stations confirmed to be put into service in 2014 and 2015. ATCO Gas also submitted that it is anticipating additional, new stations will be required in 2015. However, those projects have not yet been identified or confirmed.

422. During the hearing, Commission counsel inquired about how ATCO Gas determines whether an existing station can be modified to accommodate the new growth or a new station needs to be built altogether. Mr. Smetaniuk responded:

That process happens through a long-term planning process where ATCO Gas is evaluating the most effective and economic way to serve a new development. Stations and interconnecting feeder mains are considered together. So a simple example would be do you upgrade an existing station and install a long, large feeder main to the new development, or do you build a new station close to that development to serve the future growth? So it's a matter of balancing those types of options and coming up with the least-cost alternative, and that drives, in the end, the size and location on where that station should be.³⁵⁷

³⁵⁶ Exhibit 34.02, AUC-AG-32.

³⁵⁷ Transcript, Volume 4, page 686, lines 1-17 (Mr. Smetaniuk).

423. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

Commission findings

424. In 2011 and 2012, ATCO Gas spent \$2.9 million and \$4.5 million on New Regulating Meter Stations, respectively, compared to \$3.6 million approved in its 2011/12 GRA for both 2011 and 2012. In 2013, ATCO Gas spent \$4.0 million, compared to \$2.9 million forecast in its 2013 capital tracker application. The variance resulted in an overage of \$0.9 million and \$1.1 million in 2012 and 2013, respectively. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital expenditures in 2012 and 2013 were prudent.

425. ATCO Gas is seeking capital tracker treatment for the New Regulating Meter Stations program for the years 2014 and 2015 for the north service area.

426. ATCO Gas did not request capital tracker treatment for the New Regulating Meter Stations program in its 2013 capital tracker application.

427. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to the New Regulating Meter Stations program and considers that the evidence provided by ATCO Gas supports a finding that the program is required to maintain service reliability and safety at adequate levels in 2014 and 2015 and to prevent a deterioration of service quality.

428. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable.

429. Net capital additions for ATCO Gas in the north are forecast to be \$1.58 million in 2014 and \$1.42 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case based on a three-year historical average. The Commission finds the forecast methodology and forecast costs for 2014 and 2015 in the north to be reasonable.

430. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the New Regulating Meter Stations program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 for 2014 and 2015.

6.6.11 Meter Set Improvements

431. This program involves resizing measurement equipment to ensure continued measurement accuracy. Work undertaken in this program is driven either by changes in customer loads that require modifications to the meter and associated equipment and piping, equipment failure, or customer requests to relocate the equipment. ATCO Gas maintained that once a measurement issue is identified, it must be addressed, as ATCO Gas has a legal obligation to meet *Electricity and Gas Inspection Act* requirements for measurement.

432. ATCO Gas is seeking capital tracker treatment for Meter Set Improvements for the years 2013, 2014 and 2015 for the north service area. The capital expenditures for ATCO Gas in the north in 2013 were \$0.91 million and are forecast to be \$0.94 million and \$0.1 million in 2014 and 2015, respectively. Net capital additions for 2013 were \$0.919 million and are forecast to be \$0.907 million in 2014 and \$0.950 million in 2015.

433. ATCO Gas provided information with respect to the project assessment test in Section 4.3.17 of the application. A variance analysis was provided in Section 5.2.17 of the application. The business case was included in Appendix B17. ATCO Gas submitted that the number of sites and scope of each improvement are not easily predictable, and the lead time is short, usually within the same year. Consequently, ATCO Gas forecasts the annual costs of the Meter Set Improvements program using a three-year historical average approach. Work done as a result of customer requests, requires contributions from customers, which are also based on three-year historical averages.

434. In order to forecast the costs for this program, the 2010-2012 actual costs were adjusted to direct costs by removing non-direct costs for the respective year. The direct costs were then broken down into different cost categories: construction, labour and equipment, materials and supplies. The direct costs for the three years were brought to constant dollars and averaged.

435. ATCO Gas submitted a table of historical and forecast expenditures to demonstrate the reasonableness of the forecast.

Table 12. Historical actual and 2014-2015 forecast expenditures³⁵⁸

	2008	2009	2010	2011	2012	2013	2014 forecast	2015 forecast
	(\$ million)							
North	0.4	0.6	0.7	1.0	0.9	0.9	0.9	1.0
South	0.2	0.8	0.5	0.2	0.2	0.2	0.3	0.3
Total	0.6	1.4	1.2	1.2	1.1	1.1	1.2	1.3

436. In 2011, ATCO Gas spent \$1.2 million on Meter Set Improvements, compared to \$1.5 million approved in its 2011-2012 GRA. In the north, actual costs were not materially different from approved. In the south, actual costs were \$0.3 million less than approved. As discussed above, projects undertaken in this program are driven by changes in customer loads or requests by customers to relocate measurement equipment. customer requests resulted in reductions in meter resizing and relocation projects in the south in 2011.

³⁵⁸ Exhibit 11, application, Appendix B17, Table 4.

437. In 2012, ATCO Gas spent \$1.2 million on Meter Set Improvements, compared to \$0.8 million approved in its 2011-2012 GRA. In the north, actual costs were \$0.4 million higher than approved, due to increased customer requests for equipment relocations and load changes. In the south, actual costs were \$0.1 million less than approved. Reduced customer requests resulted in reductions in meter resizing and relocation projects in the south in 2011.

438. ATCO Gas provided a high level variance explanation for 2013. ATCO Gas explained that since it did not apply for this program as a capital tracker in its 2013 capital tracker application,³⁵⁹ there is no detailed forecast available. In 2013, ATCO Gas spent \$1.1 million on the Meter Set Improvements program compared to \$1.5 million forecast. ATCO Gas submitted that its actual costs are not materially different from the forecast.

439. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, none of the interveners raised any issues with this program.

Commission findings

440. In 2012, ATCO Gas spent \$1.2 million on Meter Set Improvements, compared to \$0.8 million approved in its 2011-2012 GRA. The variance resulted in an overage of \$0.4 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital expenditures in 2012 were prudent.

441. ATCO Gas is seeking capital tracker treatment for Meter Set Improvements for the years 2013, 2014 and 2015 for the north service area.

442. ATCO Gas did not previously request capital tracker treatment for the Meter Set Improvements program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

443. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to this program and considers that the evidence provided by ATCO Gas supports a finding that the program was required to maintain service reliability and safety at adequate levels during 2013 and to prevent a deterioration of service quality. Further, based on the record of this proceeding, the program remains necessary in 2014 and 2015.

444. With respect to ATCO Gas's request for capital tracker treatment for 2013, the Commission has reviewed the scope, level, timing and actual capital additions of \$0.919 million for this program carried out in 2013 in light of the evidence in respect of the program, particularly the variance between actual and forecast costs, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission finds the scope, level, timing and actual costs for this program in the north in 2013 to be prudent. Accordingly, the Commission finds that the Meter Set Improvements program satisfies the project assessment requirement of Criterion 1 in 2013.

³⁵⁹ Proceeding 2131.

445. ATCO Gas also requested capital tracker treatment for this program in 2014 and 2015. As noted above, the Commission finds that the program is needed in 2014 and 2015. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable.

446. The net capital additions are forecast to be \$0.907 million in 2014 and \$0.950 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case based on a three-year historical average. The Commission finds the forecast methodology and forecast costs in the north for 2014 and 2015, to be reasonable.

447. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Meter Set Improvements program are reasonable as proposed for 2014 to 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 for 2014 and 2015.

6.6.12 Cathodic Protection

448. The Cathodic Protection program consists of maintaining and improving cathodic protection on ATCO Gas's existing steel mains. ATCO Gas maintains cathodic protection through improvement projects such as the replacement and new installation of dresser bondings, isolation fittings, anodes, rectifiers, and ground beds.

449. Actual total capital expenditures were \$1.5 million (\$1.0 million in the north and \$0.5 million in the south) in 2013. Total capital expenditures are forecast \$2.51 million (\$1.52 million in the north and \$0.98 million in the south) for 2014, and \$2.23 million (\$1.19 million in the north and \$1.04 million in the south) for 2015.³⁶⁰ Actual total capital additions were \$1.31 million (\$0.66 million in the north and \$0.65 million in the south) in 2013. Total capital additions are forecast to be \$2.42 million (\$1.54 million in the north and \$0.88 million in the south) for 2014, and \$2.35 million (\$1.33 million in the north and \$1.02 million in the south) for 2015.³⁶¹

450. ATCO Gas provided information with respect to the project assessment test in Section 4.3.6 of the application. A variance analysis was provided in Section 5.2.6 of the application. The business case was included in Appendix B6.

451. ATCO Gas submitted that cathodic protection improvements are necessary to extend the life of its steel mains, reduce leak frequencies, and to help maintain safe and reliable service. Moreover, ATCO Gas explained that the Technical Standard and Specifications Manual for Gas Distribution Systems prepared in accordance with the *Gas Distribution Act*, requires pipelines that are faced with electrochemical conditions, which lead to corrosion, be adequately protected from corrosion. ATCO Gas uses Canadian Standards Association (CSA) standard Z226, along with Canadian Gas Association (CGA) recommended practice OCC-1 as its guidelines for corrosion protection.³⁶²

³⁶⁰ Exhibit 11, Appendix B6, Table 1.

³⁶¹ Exhibit 8, application, Schedule A5.

³⁶² Exhibit 4, application, paragraph 247.

452. ATCO Gas has approximately 8,900 km of steel mains and a large number of steel service lines that require cathodic protection. ATCO Gas explained that the majority of its steel pipe was installed before the 1980's and cathodic protection systems are designed with a 25-year life span. Given that the life expectancy of the pipe is greater than 25 years, ATCO Gas expects to undertake cathodic protection replacements and improvements over the life of its steel pipe. ATCO Gas has observed cathodic protection systems lasting from 10 to 50 years, as the cathodic protection is affected by a number of factors including the degradation of coatings due to poor coating material, breaks in electrical continuity at mechanical fittings, corrosion at welds, corrosion at repair locations, changing soil moisture, and the regular depletion on anodes over time.³⁶³ Cathodic protection is also affected by electrical shorts, which occur when metal touches the pipe that connects a house to the steel service line where there is a bypassed or failed insulator. As a result, ATCO Gas submitted that it is difficult to predict the timing of cathodic replacements and that the driver of replacement work is cathodic protection failures, which are identified by inspection programs.³⁶⁴

453. Within the Cathodic Protection program, ATCO Gas carries out the Anode Replacement program, which began in 2012 to replace an increasing number of anodes on isolated steel pipe. Isolated steel pipe services, which occur when the steel service line is attached to a plastic main, are located primarily in rural areas. Each isolated steel pipe requires its own anode; however, the anodes deplete gradually over time. ATCO Gas does not have complete historical records of isolated steel services, and is now identifying, tracking and monitoring its isolated steel as part of its five-year leak survey program from 2012 to 2016. ATCO Gas replaced 320 anodes in 2012 and 617 in 2013. The remaining 3,400 locations, and any new locations identified by the leak survey, will be addressed in the next three years of the anode replacement program.³⁶⁵ ATCO Gas explained that some anode replacements are done alongside its PMR program and its MRRP.

454. During the hearing, ATCO Gas clarified that, in the past, anode replacements have been included as part of cathodic protection work. The Anode Replacement program identified in this proceeding, however, is being driven by a higher number of anode failures occurring with respect to isolated steel segments of pipe installed in the 1970s as part of the rural gasification program. ATCO Gas separated its costs to provide a forecast that includes specific unit rates and, therefore, its forecast is more accurate.³⁶⁶

455. ATCO Gas forecasts the capital expenditures for the anode replacement program on a unit cost basis. ATCO Gas took the 2012 actual expenditures, removed the non-direct costs and then took the remaining direct costs and divided them by the actual anodes replaced in 2012. That direct unit cost is then broken down into construction labour and equipment, materials, and supplies. The labour and non-labour inflation rates, discussed above, were then applied to the direct unit cost forecasts. The forecast unit costs are then multiplied by the number of replacements forecast in 2014 and 2015, respectively. Once the total anode replacement forecast costs are determined, ATCO Gas applies the allocated indirect costs based on the total direct costs.

³⁶³ Exhibit 11, Appendix B6, paragraph 15.

³⁶⁴ Exhibit 11, Appendix B6, paragraphs 20-21.

³⁶⁵ Exhibit 11, Appendix B6, paragraphs 23-24.

³⁶⁶ Transcript, Volume 5, pages 752-753.

456. In 2014, ATCO Gas forecast the replacement of 1,400 anodes at a total unit cost of \$934. In 2015, ATCO Gas forecast the replacement of 1,200 anodes at a total unit cost of \$893. The total forecast capital expenditures for anode replacements in 2014 and 2015 are \$1.307 million and \$1.071 million, respectively. ATCO Gas replaced 617 anodes in 2013 at a unit cost of \$853, for a total cost of \$0.5 million. ATCO Gas stated that the 2012 anode replacement unit cost was \$896 and explained that unit costs can vary slightly due to site conditions.³⁶⁷ ATCO Gas provided the following table outlining the total forecast capital expenditures related to its anode replacement program.

Table 13. 2014 and 2015 Cathodic Protection Anode Replacement capital expenditure forecast³⁶⁸

	North		South		Total	
	(\$ million)					
Component	2014 forecast	2015 forecast	2014 forecast	2015 forecast	2014 forecast	2015 forecast
Construction labour and equipment	0.928	0.653	0.254	0.326	1.182	0.979
Materials	0.031	0.023	0.008	0.012	0.038	0.035
Supplies	-	-	-	-	-	-
Allocated indirects	0.052	0.027	0.014	0.013	0.066	0.040
AFUDC	0.016	0.011	0.004	0.006	0.020	0.017
Total	1.027	0.714	0.280	0.357	1.307	1.071

457. The other component of work done within the Cathodic Protection program is general cathodic protection work, which is forecast using a historical average of actual capital expenditures for the prior three years. ATCO Gas submitted that the historical average cost approach is used because the scope of work for a given year can vary significantly, the timing of cathodic protection failures is unknown, and cathodic protection is replaced on a failure basis. ATCO Gas calculated the three-year average by taking the 2010 to 2012 actual costs and removing the non-direct costs for that year. The remaining direct costs are broken down into construction labour and equipment, materials, and supplies, and are converted to constant dollars and averaged. The inflation is then calculated separately for the labour and non-labour categories and applied to determine the 2014 and 2015 direct cost forecasts. The labour cost inflation rate used was 3.5 per cent and the non-labour inflation rate used was 2.5 per cent. Allocated costs, such as project management, engineering, design support, and construction management are then allocated to the Cathodic Protection program based on the direct costs.³⁶⁹

458. ATCO Gas's forecast capital expenditures for the general cathodic protection work in 2014 are \$1.204 million and \$1.162 million in 2015. ATCO Gas provided the following table of the breakdown of forecast capital expenditures for general cathodic protection work.

³⁶⁷ Exhibit 4, application, paragraph 667.

³⁶⁸ Exhibit 11, Appendix B6, page 14, Table 4.

³⁶⁹ Exhibit 11, Appendix B6, paragraphs 28-33.

Table 14. 2014 and 215 General Cathodic Protection Improvements capital expenditure forecast³⁷⁰

Component	North		South		Total	
	2014 forecast	2015 forecast	2014 forecast	2015 forecast	2014 forecast	2015 forecast
	(\$ million)					
Construction labour and equipment	0.435	0.422	0.608	0.592	1.043	1.014
Materials	0.025	0.026	0.029	0.030	0.054	0.056
Supplies	0.007	0.007	0.025	0.026	0.032	0.033
Allocated indirects	0.024	0.017	0.032	0.023	0.056	0.040
AFUDC	0.008	0.008	0.011	0.011	0.019	0.019
Total	0.499	0.480	0.705	0.682	1.1204	1.162

459. The allocated indirect costs are lower in 2015, as compared to 2014, because ATCO Gas's 2015 total capital expenditures are higher for 2015; therefore, the proportion of general cathodic protection improvements direct costs are smaller in 2015. ATCO Gas explained this is the reason the 2014 forecast is higher than the 2015 forecast for general cathodic protection improvements.

460. The total 2014 and 2015 forecast capital expenditures for the Cathodic Protection program are \$2.5 million and \$2.2 million, respectively; however, ATCO Gas is seeking capital tracker treatment for this program only in 2015. In each of 2012 and 2013, the actual capital expenditures for this program were \$1.5 million. The forecast capital expenditure for this program in 2014 is \$2.5 million. ATCO Gas explained that the increase in capital expenditures from 2012 and 2013 to 2014 and 2015 is primarily driven by the increased number of anode replacements. ATCO Gas replaced 617 anodes in 2013, as compared to the 1,400 and 1,200 forecast to be replaced in 2014 and 2015, respectively.³⁷¹ ATCO Gas noted that the anode replacement program is expected to be complete by 2016, after which the volume of anodes installed will decrease significantly.³⁷²

461. In an information response to the Commission, ATCO Gas explained that, consistent with historical practice, cathodic protection improvements and replacements are capitalized expenditures rather than operations and maintenance expenses, given that cathodic protection extends the life of pipelines and are tangible assets. ATCO Gas stated that the capitalization of these expenditures is consistent with Alberta Regulation 546/63 *Uniform System of Accounting for Natural Gas Utilities*.³⁷³ Furthermore, ATCO Gas submitted that because the Cathodic Protection program is for the replacement of failed equipment and consumed anodes, there is no operations and maintenance alternative to this program.³⁷⁴

462. ATCO Gas further provided 2011, 2012, and 2013 actuals and variance explanations from approved and forecast expenditure amounts. In 2011, ATCO Gas forecast \$0.8 million for cathodic protection; however, actual capital expenditures were \$1.8 million. The forecast amount of \$0.8 million was approved in ATCO Gas's 2011-2012 GRA. The increase in expenditures was the result of ATCO Gas implementing a remote monitoring program across the province so

³⁷⁰ Exhibit 11, Appendix B6, page 14, Table 2.

³⁷¹ Exhibit 4, application, paragraph 667.

³⁷² Exhibit 4, application, paragraphs 254 and 259.

³⁷³ Exhibit 34.01, AUC-AG-15(b).

³⁷⁴ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 114.

ATCO Gas is able to track its cathodic protection performance at rectifier sites. ATCO Gas explained that the 2011 expenditures for the remote monitoring were \$0.8 million, and noted that no forecast was submitted or approved in its 2011-2012 GRA.³⁷⁵

463. In 2012, ATCO Gas's actual capital expenditures for cathodic protection were \$1.5 million, an increase of \$0.7 million from the amount approved in its GRA. ATCO Gas explained that expenditures in the north were \$0.5 million higher than approved, due to a \$0.2 million increase in general spending and a \$0.3 million increase attributable to specific projects. The first project was for approximately \$0.3 million for the beginning of the anode replacement program, which at the time, included a review and identification of depleted anodes. The second project replaced 39 rectifiers that were found to be at an unacceptable level of safety risk, as identified by the remote monitoring put in place in 2011. The cost for the rectifier replacement project in 2012 was \$0.1 million, divided equally between the north and the south.³⁷⁶

464. The 2013 actual capital expenditures for the Cathodic Protection program were \$1.5 million, as compared to the \$1.3 million forecast. ATCO Gas explained that the \$0.2 million variance occurred in the north as the result of additional anode replacement program work. ATCO Gas replaced 617 anodes in 2013 at an average cost of \$853 per site.³⁷⁷

465. The Commission notes that with the exception of concerns relating to grouping and adequacy of the alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, the interveners did not raise any issues with the Cathodic Protection program.

Commission findings

466. In 2011, ATCO Gas had approved forecast capital expenditures for the Cathodic Protection program in the amount of \$0.8 million. It had actual capital expenditures of \$1.9 million. The variance results in an overage of \$1.1 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$0.8 million. It had actual capital expenditures of \$1.5 million. The variance results in an overage of \$0.7 million. The Commission has reviewed the evidence on the record, including the costs variance analysis which refers to the introduction of the anode replacement program, remote monitoring program, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

467. ATCO Gas is seeking capital tracker treatment for this program for 2015 in both the north and south service areas.

468. ATCO Gas did not previously request capital tracker treatment for the Cathodic Protection program in its 2013 capital tracker application.

469. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to the Cathodic Protection program. The Commission notes that ATCO Gas did not provide an engineering study or assessment as part of its business case; however, the Commission acknowledges that ATCO Gas maintains cathodic protection in

³⁷⁵ Exhibit 4, application, paragraphs 654-657.

³⁷⁶ Exhibit 4, application, paragraphs 658-662.

³⁷⁷ Exhibit 4, application, paragraphs 663-669.

accordance with government requirements and industry standards. Accordingly, the Commission considers that the evidence provided by ATCO Gas supports a finding that the program is required to maintain service reliability and safety at adequate levels during 2015 and to prevent a deterioration of service quality.

470. With respect to the scope, level, timing, and forecast capital additions of \$2.3 million for the Cathodic Protection program in 2015, the Commission has reviewed the business case and the relevant portions of the record for this program. The Commission acknowledges that the forecast expenditures are significantly higher in 2015 than in 2012 and 2013; however, the Commission notes that the expenditures are required in order for ATCO Gas to complete the replacement of depleted anodes on its isolated steel pipe sections. Further, the Commission notes that the unit costs for the anode replacements in 2015 are consistent with the unit costs in 2013 and 2014. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered the information supporting ATCO Gas's forecasts and finds the total annual forecast to be reasonable based on the three-year historical average forecasting method for general cathodic protection work and the unit cost forecast for the Anode Replacement program. Based on the above, the Commission finds the forecast scope, level, timing and forecast costs of the Cathodic Protection program in the north in 2015 to be reasonable.

471. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing, and forecast costs for ATCO Gas's Cathodic Protection program are reasonable as proposed for 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 in 2015.

6.6.13 Line Heater Reliability

472. The Line Heater Reliability program consists of the continued replacement of line heaters that are non-compliant with the Occupational Health and Safety (OH&S) code. ATCO Gas began replacing the non-compliant line heaters in 2011, and the program was approved by the Commission in Decision 2011-450.³⁷⁸

473. ATCO Gas is applying for capital tracker treatment for this program in 2014 and 2015 in the north. Capital expenditures in the north were \$1.4 million and total capital expenditures were \$3.1 million in 2013. Capital expenditures are forecast to be \$3.1 million in the north and \$5.1 million in total for 2014, and \$4.0 million in the north and \$6.5 million in total for 2015. Net capital additions were \$1.358 million for the north (\$0.304 million total)³⁷⁹ in 2013 and are forecast to be \$3.34 million for the north (\$7.761 million total) in 2014 and \$3.4 million for the north (\$5.487 million total) in 2015.³⁸⁰

474. ATCO Gas provided information with respect to the project assessment test in Section 4.3.5 of the application. A variance analysis was provided in Section 5.2.5 of the

³⁷⁸ Decision 2011-450, paragraph 200.

³⁷⁹ In Exhibit 5, Appendix A, Schedule A5, ATCO Gas stated that net capital additions in the south were negative \$1.504 million, and as a result total line heater reliability capital additions in 2013 were \$0.304 million. The negative capital addition amount for the south in 2013 is discussed further in Section 6.5.

³⁸⁰ Exhibit 8, application, Schedule A5, pages 4-5.

application. The business case is included in Appendix B1. The engineering assessment is provided in Appendix B5.

475. ATCO Gas brought forward the Line Heater Replacement³⁸¹ program as part of its 2013 capital tracker application. The scope of the Line Heater Replacement program was to replace 61 line heaters with code compliance issues, in addition to fixing all line heater compliance issues, estimated to be 431 line heaters, by the projected completion date of 2019. In this proceeding, ATCO Gas estimated that it will perform work on a total 499 line heaters as part of the Line Heater Reliability program, of which 403 line heaters still require work to correct code compliance issues, as of January 1, 2014.³⁸²

Table 15. Line Heater Reliability program total actual and forecast sites and expenditures³⁸³

	2011 actual	2012 actual	2013 forecast	2013 actual	2014 forecast	2015 forecast
Sites	23	22	61	40	55	69
Unit cost	\$24,067	\$38,783	\$84,629	\$100,238	\$92,088	\$94,483
Total expenditures (\$ million)	1.3	3.2	5.2	3.1	5.1	6.5

476. In 2013, ATCO Gas fixed a lower number of line heaters with code compliance issues than it had originally forecast in the 2013 capital tracker application. This led to a decrease in the program cost for 2013 from the forecast of \$5.2 million to the actual cost of \$3.1 million. The actual unit cost per line heater replacement was \$100,238 in 2013, which was \$15,609 higher than the forecast ATCO Gas had brought forward in the 2013 capital tracker application. In the current application, ATCO Gas explained that the variance in the number of sites completed in 2013 was due to a number of technical and power supply issues that arose with the burner systems that ATCO Gas was planning to install. ATCO Gas put some line heater projects on hold until it had resolved the issues, at which point ATCO Gas explained it was too late in the year to complete the projects.³⁸⁴ This delay of line heater projects in 2013 led to the actual total expenditures being \$2.1 million less than ATCO Gas had forecast in the 2013 capital tracker application. In explaining the variance between the 2013 actual and forecast unit costs, ATCO Gas stated that “the higher actual cost per site was due to completing a higher than expected percentage of complex scope projects (i.e. full line heater replacement).”³⁸⁵

477. The increase in total cost from 2014 to 2015 is primarily driven by the increased number of line heater sites that ATCO Gas plans to replace in 2015. The increase in the unit cost per site from 2014 to 2015 of \$2,395 is being driven by labour and non-labour inflation rates of 3.5 and 2.5 per cent, respectively. With respect to how the 2013 actual unit costs affected the 2014 and 2015 unit costs, ATCO Gas stated:

33. The average cost per site in 2014 and 2015 is estimated at \$92,088 and \$94,483, respectively. These averages are based on 2013 actual project costs and detailed engineering project estimates.

³⁸¹ In proceeding ID 2131 the Line Heater Reliability program was called Line Heater Replacement.

³⁸² Exhibit 11, Appendix B5, paragraphs 19-22.

³⁸³ Exhibit 4, application, paragraphs 645- 651; Exhibit 11, Appendix B5, Table 1 and paragraph 6; Exhibit 37.02, CCA-AG-11, Table 1.

³⁸⁴ Exhibit 4, application, paragraph 650.

³⁸⁵ Exhibit 4, application, paragraph 651.

34. The 2013 unit costs are translated into forecast of 2014 and 2015 unit costs by inflating the direct costs. The inflation assumptions are shown below in Table 3. This inflation was applied to the 2013 actual direct costs to determine 2014 and 2015 forecasts.³⁸⁶

478. With respect to “detailed engineering project estimates,” ATCO Gas included the cost of the 240 line heater projects that it used to obtain the average cost per line heater in an attachment to its business case. In addition, ATCO Gas provided the following breakdown of 2014 and 2015 capital expenditures in the north.

Table 16. 2014 and 2014 Line Heater Reliability capital expenditure forecast in the north³⁸⁷

Component	2014 north forecast	2015 north forecast
	(\$ million)	
Construction labour and equipment	1.695	2.181
Materials	0.222	0.288
Supplies	1.055	1.307
Allocated indirects	0.079	0.096
AFUDC	0.131	0.169
Total	3.132	4.041

479. In an information response to the UCA, ATCO Gas indicated it could not provide information similar to that shown in Table 16 for 2013 because it would require a “significant effort which is not reasonable given the time allowed to respond to these Information Requests.”³⁸⁸

480. During the hearing, ATCO Gas expanded on the unit cost increases from 2012 to 2015, stating:

MR. WHITTALL: 2014 and 2015 are described as having a normal distribution of simple and complex projects. The 2012 and 2013, as is suggested, had a very high ratio of simple projects because we were able to do those as a stack extension only. We didn't have to do any work with the line heater itself or land acquisition, moving line heaters, adding burner -- potentially management -- or, pardon me -- adding burner management systems, et cetera.

So while 2014 and '15 say that they're a normal distribution, that normal distribution would include some that are a stack extension only, and that is reasonably inexpensive; but when you start looking at a line heater with burner management systems, power packs for the burner management as well, moving the line heater, land acquisition, those ones become very expensive. And so that's why you see that different -- that different average cost in 2014 and '15 than previously.

³⁸⁶ Exhibit 11, Appendix B5, paragraphs 33-34.

³⁸⁷ Exhibit 11, Appendix B5, Table 2.

³⁸⁸ Exhibit 36.02, UCA-AG-21(d).

481. ATCO Gas is still forecasting a 2019 completion date for this program, at a rate of 69 line heater replacements per year, starting in 2015. The program's total costs between the years 2009 to 2019 is forecast to be \$48.0 million.³⁸⁹

482. The Commission notes that with the exception of concerns relating to grouping and adequacy of the alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, the interveners did not raise any issues with the Line Heater Reliability program.

Commission findings

483. ATCO Gas is applying for capital tracker treatment for this program in 2014 and 2015 in the north.

484. The need for the Line Heater Reliability program was previously recognized by the Commission in Decision 2011-450.³⁹⁰ In addition, ATCO Gas previously applied for the Line Heater Reliability program as a capital tracker in its 2013 capital tracker application. In Decision 2013-435, the Commission again determined that the Line Heater Reliability program, then called Line Heater Replacement program, was required to maintain service reliability, quality and safety at adequate levels in 2013.³⁹¹

485. As noted in Section 3, where a forecast project or program is part of a multi-year, ongoing project or program or, if the project or program is of an annual, recurring nature that has previously been approved for capital tracker treatment, in the absence of evidence that the ongoing or recurring project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1. As noted above, the need for the Line Heater Reliability program was established by the Commission in Decision 2013-435 for 2013 as a capital tracker. Based on the record of this proceeding, the Commission finds no evidence that this program is not required in 2014 and 2015. Accordingly, the Commission finds that the program is needed in 2014 and 2015.

486. With respect to the scope, level and timing of the Line Heater Reliability program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable.

487. ATCO Gas's forecast capital additions associated with this program are \$3.34 million in the north, and \$7.76 million in total, in 2014 and \$3.4 million in the north, and \$5.487 million in total, in 2015. The Commission has reviewed the costs of the forecast capital additions for the north in 2014 and 2015 in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery. The Commission has also reviewed ATCO Gas's forecast methodology, which uses unit costs based on 2013 actuals and an average of 240 line heater cost estimates. The Commission acknowledges that the 2013 actual and 2014 and 2015 forecast unit costs are higher than the 2013 forecast unit cost considered in Decision 2013-435. However, the Commission is satisfied with ATCO Gas's explanation that more complex solutions were required in 2013 than

³⁸⁹ Exhibit 11, Appendix B.5, paragraph 29.

³⁹⁰ Decision 2011-450: ATCO Gas (a Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase I, Proceeding 969, Application 1606822-1, December 5, 2011, at paragraph 200.

³⁹¹ Decision 2013-435, paragraph 669.

originally forecast and that 2014 and 2015 will have a distribution of non-complex and complex projects and that each project is different. The Commission also accepts that the increase in forecast total cost from 2014 to 2015 is primarily driven by the increased number of line heater sites that ATCO Gas plans to replace in 2015. The increase in the forecast unit cost per site from 2014 to 2015 of \$2,395 is being driven by forecast labour and non-labour inflation rates of 3.5 and 2.5 per cent, respectively. The Commission finds, based on the above evidence, the forecast methodology and forecast costs of the program for the north in 2014 and 2015, to be reasonable.

488. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for ATCO Gas's Line Heater Reliability program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 in 2014 and 2015.

6.6.14 Rural Main Extensions and Services

489. The Rural Main Extensions and Services program consists of the construction and installation of main extensions and services in ATCO Gas's rural service area required to connect customers to the distribution system. A main extension is a distribution main that connects the customer's property to the regulating metering station. A service line is distribution pipe that connects the main extension to the meter and regulator set at the building requiring service. ATCO Gas explained that the work done within this program is ongoing and serves to connect new rural customers, whom ATCO Gas is obligated to serve.³⁹²

490. ATCO Gas is applying for capital tracker treatment for this program in 2015 for the north. Capital expenditures in the north were \$11.5 million and total capital expenditures were \$16.8 million in 2013. Capital expenditures are forecast to be \$10.2 million in the north and \$17.9 million in total for 2014, and \$10.2 million in the north and \$18.3 million in total for 2015. Net capital additions for 2013 were \$10.48 million in the north (\$15.5 million in total), and are forecast to be \$11.13 million in the north (\$18.88 million in total) in 2014 and \$10.12 million in the north (\$18.2 million in total) in 2015.

491. ATCO Gas provided information with respect to the project assessment test in Section 4.3.18 of the application amendment. A variance analysis was provided in Section 5.2.18 of the application amendment. The business case is included in Appendix B18 of the application amendment.

492. The need for a new rural main extension or service line is requested by either a developer, business owner, or homeowner that requires distribution service. ATCO Gas stated that customer contributions and provincial grants are received as an offset to a portion of the capital expenditures associated with this program. The annual level of work associated with this program is influenced by housing markets, industry growth, population growth, and rural development.³⁹³ Given that the work done within this program is identified as requests are made to connect new rural customers and driven by customer growth, ATCO Gas submitted that this program could not have been previously undertaken and that no reasonable alternatives exist.

³⁹² Exhibit 27.01, ATCO Gas application amendment, Section 4.3.18, paragraph 7.

³⁹³ Exhibit 27.01, ATCO Gas application amendment, Section 4.3.18, paragraphs 8-9.

493. ATCO Gas forecasts the annual new service lines based on customer growth forecasts, which are determined using CMHC forecasts for detached housing starts in the Edmonton Census Metropolitan Area (CMA), Grand Prairie, Red Deer, Wood Buffalo, Calgary CMA, and Lethbridge. For rural areas, a five-year average ratio of service line installations in the rural area of one of the above zones, excluding the city, to the installations in the city within that zone is calculated. The ratio is multiplied by the forecast units for the major city within that zone to determine the forecast units for the rural area. Commercial units are forecast on a five-year historical average of commercial units.³⁹⁴

494. For main extensions, ATCO Gas forecasts the number of lots serviced by a main by calculating a three-year average ratio of actual lots serviced by a main to the actual number of service line installations. The ratio is then applied to the previously calculated forecast number of service line installations.³⁹⁵

495. To forecast the costs for this program, ATCO Gas took the 2010 to 2012 actual costs, removed the non-direct costs, and then broke the remaining direct costs into construction labour and equipment, and material and supplies. The three-year direct cost for each category is divided by the total units installed over the three years to calculate an average unit cost for each cost category. The costs in those categories are then inflated by applying the labour inflation rate of 3.5 per cent and the non-labour inflation rate of 2.5 per cent to determine the 2014 and 2015 direct unit cost forecast. The allocated costs, including project management, engineering design support and construction management, are then allocated to the overall project based on the direct costs.³⁹⁶

496. For the Rural Main Extensions and Services program, ATCO Gas receives contributions from rural residential customers who pay the rural connection charge or the urban pool connection charge based on the size of lot and proximity to other lots. Rural commercial customers pay the larger of the rural connection charge or the estimated connection cost minus a credit of three times their yearly revenue. Overall contributions are forecast by multiplying the forecast new connections for residential and commercial by the respective connection charge.³⁹⁷

497. ATCO Gas also receives grants from the province of Alberta to offset part of the construction costs associated with connecting these customers. The forecast grant amount is based on the amount received in the year prior.³⁹⁸

498. ATCO Gas provided the following table with the actual and forecast expenditures and units for 2008 to 2015.

³⁹⁴ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, paragraphs 19-21.

³⁹⁵ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, paragraphs 22-23.

³⁹⁶ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, paragraphs 24-25.

³⁹⁷ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, paragraph 27.

³⁹⁸ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, paragraph 28.

Table 17. Rural Main Extensions and Services 2008 to 2013 actual and forecast expenditures, units, and unit costs³⁹⁹

Year	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2014 forecast	2015 forecast
Expenditures (\$ million) – north	7.5	5.9	6.4	6.9	8.0	11.5	10.2	10.2
Expenditures (\$ million) - south	5.4	5.2	5.8	5.4	5.9	5.3	7.7	8.1
Total expenditures (\$ million)	12.9	11.1	12.2	12.3	13.9	16.8	17.9	18.3
Units - north	931	631	626	598	684	770	815	815
Units - south	770	466	631	502	627	590	737	737
Total units	1,701	1,097	1,257	1,100	1,311	1,360	1,552	1,552
Unit cost (\$) - north	8,056	9,329	10,301	11,584	11,662	14,902	12,487	12,420
Unit cost (\$) - south	7,013	11,173	9,178	10,757	9,435	9,001	10,431	11,033
Total unit cost (\$)	7,584	10,112	9,737	11,207	10,597	12,342	11,511	11,761

499. ATCO Gas’s total forecast costs for this project in 2014 and 2015 are \$17.9 million and \$18.3 million, respectively. The total units forecast to be installed are 1,552 in both 2014 and 2015, with total average unit costs of \$11,511 and \$11,761, respectively. While ATCO Gas is seeking capital tracker treatment for this program for only 2015 in the north, it submitted that the forecast costs, units, and unit costs for 2014 and 2015 are reasonable in comparison to the historical actuals.⁴⁰⁰

500. ATCO Gas also provided variance explanations for 2011 to 2013 forecast and actual expenditures. In 2011, ATCO Gas had an approved forecast of \$14.3 million to install 1,656 units related to the work done on rural mains extensions and services. ATCO Gas’s 2011 actual expenditures were \$12.3 million to install 1,100 units. ATCO Gas explained that the expenditures in both the north and the south were lower than approved due to fewer installations than forecast; however, this decrease in expenditures was partially offset by an increase in the unit cost from approved to actual of \$8,652 to \$11,207. ATCO Gas stated that the higher unit costs result from the installation of more main extensions per rural customer and the installation of larger services than expected.⁴⁰¹

501. In ATCO Gas’s 2011-2012 GRA, \$14.1 million was approved for rural main extensions and services in 2012, with a forecast of 1,656 installations. ATCO Gas actually installed 1,311 units for a total cost of \$13.9 million. In the north, expenditures were \$0.6 million higher than approved due to an increase in unit costs from the forecast of \$8,484 to the actual of \$11,662. As was the case in 2011, the unit cost increase was due to installing more main extensions per customer and the installation of larger services than forecast. In the south, ATCO Gas spent

³⁹⁹ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, tables 7- 9.

⁴⁰⁰ Exhibit 27.01, ATCO Gas application amendment, Appendix B18, paragraph 30.

⁴⁰¹ Exhibit 27.01, ATCO Gas application amendment, Section 5.2.18, paragraphs 3-6.

\$5.9 million, which was \$0.8 million lower than the approved forecast. The decrease in expenditures in the south was the result of installing fewer units.

502. In 2013, expenditures in the north were \$3.0 million higher than forecast due to an increased number of units installed given higher than expected economic activity. ATCO Gas noted that of the \$3.0 million, approximately \$866,000 was the result of an expansion to the Fort McMurray Airport. In addition, in 2013, expenditures in the south were \$2.7 million lower than forecast. The decrease was attributed to the installation of fewer units at a lower cost per unit.⁴⁰²

503. The Commission notes that with the exception of concerns relating to grouping and adequacy of the alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, the interveners did not raise any issues with the Rural Main Extension and Services program.

Commission findings

504. ATCO Gas is applying for capital tracker treatment for this program in 2015 for the north.

505. ATCO Gas did not previously request capital tracker treatment for the Rural Main Extensions and Services program in its 2013 capital tracker application. The Commission notes that ATCO Gas did not provide an engineering study or assessment as part of its business case; however, ATCO Gas did state that this program is required to connect new rural customers to the distribution system. The Commission has reviewed the business case and the evidence on the record with respect to the program and considers that the evidence provided by ATCO Gas supports a finding that the program is required to maintain service reliability and safety at adequate levels in 2015.

506. With respect to the scope, level and timing of the Rural Main Extensions and Services program in the north for 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015 to be reasonable.

507. ATCO Gas's forecast capital additions associated with this project are \$10.12 million for the north in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case. The Commission finds the forecast methodology and forecast costs for 2015 in the north to be reasonable.

508. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for ATCO Gas's Rural Main Extensions and Services program are reasonable as proposed for 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1.

⁴⁰² Exhibit 27.01, ATCO Gas application amendment, Section 5.2.18, paragraphs 11-13.

6.6.15 New Urban Service Lines

509. This ongoing program consists of the installation of the portion of distribution pipe from the urban main extension on a new subdivided lot to the meter and regulator set at the building.⁴⁰³ ATCO Gas explained that under the Terms and Conditions of Distribution Service Connections, ATCO Gas must complete new urban service lines to most customers within the municipal boundary and charge the approved Schedule C rates.⁴⁰⁴ ATCO Gas further noted that pursuant to its obligation to serve, ATCO Gas must respond to new urban customer applications in order to meet its legal obligations.⁴⁰⁵

510. ATCO Gas is seeking capital tracker treatment for the New Urban Service Lines program for the years 2013, 2014 and 2015 for the south service area only. The capital expenditures for ATCO Gas in 2013 were \$19.4 million in the north and \$15.3 million in the south, and are forecast to be \$22.5 million in the north and \$13.3 million in the south, and \$23.2 million in the north and \$13.7 million in the south in 2014 and 2015, respectively. Net capital additions for 2013 were \$19.5 million in the north and \$15.3 million in the south and are forecast to be \$22.3 million in the north and \$13.3 million in the south in 2014 and \$23.2 million in the north and \$13.7 million in the south in 2015.⁴⁰⁶

511. ATCO Gas provided information with respect to the program assessment test in Section 4.3.9 of the application. A variance analysis was provided in Section 5.2.9 of the application. The business case and engineering studies are included in Appendix B9.

512. ATCO Gas explained that many factors such as new housing markets, population growth, municipal zoning, development or annexations, drive the need for new urban service lines and ATCO Gas does not have control over the number of installations required in a given year. Further, installation costs can vary widely. For example, costs are higher during winter than in frost free conditions and costs for in-fill services are significantly higher than for new services. However, ATCO Gas explained that it is working closely with municipalities, developers and home builders to expand the use of common trenching, which allows for lower cost installations.⁴⁰⁷ ATCO Gas noted that common trenching costs can be 20 per cent to 40 per cent lower than traditional servicing costs in Edmonton.⁴⁰⁸

513. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital additions for this program in the amount of \$31.4 million for 2011 and \$31.8 million for 2012. ATCO Gas's actual capital additions for this program were \$29.5 million in 2011 and \$33.4 million in 2012, a variance of negative \$1.9 million in 2011 and \$1.6 million in 2012. In its business case, ATCO Gas explained that expenditures in 2011 were below the approved costs as a result of fewer units being installed and expenditures in 2012 increased over forecast due to higher unit costs in the south, which can be attributed to more infill services and larger services.⁴⁰⁹

514. In its 2013 capital tracker application, ATCO Gas forecast capital additions for this program in the amount of \$33.6 million. ATCO Gas's actual capital additions for this program

⁴⁰³ Exhibit 11, Appendix B4, paragraph 8.

⁴⁰⁴ Exhibit 11, Appendix B4, paragraph 11.

⁴⁰⁵ Exhibit 11, Appendix B4, paragraph 2.

⁴⁰⁶ Exhibit 8, application, Schedule A5.

⁴⁰⁷ Exhibit 11, Appendix B4, paragraphs 13-14.

⁴⁰⁸ Exhibit 34.01, AUC-AG-39(a) and (c).

⁴⁰⁹ Exhibit 4, application, paragraphs 686-690.

were \$34.7 million, a variance of \$1.1 million. ATCO Gas explained that expenditures in 2013 were \$1.9 million below forecast in the north due to an increased use of common trenching and \$3.0 million above forecast in the south due to a larger number of units installed.⁴¹⁰

515. In the 2014-2015 capital tracker and 2013 true-up application, ATCO Gas forecast capital additions associated with this program to be \$35.9 million in 2014 and \$36.9 million in 2015.⁴¹¹ ATCO Gas explained that this forecast is based on a unit cost approach, where the number of units is based on a growth forecast and unit costs are based on a historical average of costs.⁴¹² ATCO Gas explained that it relies on the historical average approach to forecast the unit costs because the unit costs are variable and dependent on external factors and the historical average smooths out the effect of these higher and lower costs experienced over time.⁴¹³

516. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

Commission findings

517. In 2011, ATCO Gas had approved forecast capital expenditures for the New Urban Service Lines program in the amount of \$31.4 million. It had actual capital expenditures of \$29.5 million. The variance is negative \$1.9 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$31.8 million. It had actual capital expenditures of \$33.4 million. The variance results in an overage of \$1.6 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

518. ATCO Gas did not previously request capital tracker treatment for the New Urban Service Lines program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

519. ATCO Gas is seeking capital tracker treatment for the New Urban Service Lines program for the years 2013, 2014 and 2015 for the south service area only. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to the New Urban Service Lines program and considers that the evidence provided by ATCO Gas supports a finding that the program was required to maintain service reliability and safety at adequate levels during 2013. Further, based on the record of this proceeding, the program remains necessary in 2014 and 2015.

520. With respect to the scope, level and timing of the New Urban Service Lines program carried out in 2013, the Commission has reviewed ATCO Gas's 2013 actual capital additions of \$34.7 million in 2013 associated with this program and in light of the evidence with respect to the program and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission finds the scope, level, timing

⁴¹⁰ Exhibit 4, application, paragraphs 691-694.

⁴¹¹ Exhibit 4, application, paragraph 326.

⁴¹² Exhibit 11, Appendix B4, paragraph 5.

⁴¹³ Exhibit 11, Appendix B4, paragraphs 16-18.

and actual costs for this program in the south in 2013 to be prudent. Accordingly, the Commission finds that the New Urban Service Lines program satisfies the project assessment requirement of Criterion 1 in 2013.

521. ATCO Gas also requested capital tracker treatment for this program in 2014 and 2015. As noted above, the Commission finds that the program is needed in 2014 and 2015. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable.

522. ATCO Gas's forecast capital additions associated with this program are \$35.9 million in 2014 and \$36.9 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also considered ATCO Gas's forecasting methodology presented in the business case based on a unit cost approach, where the number of units is based on a growth forecast and unit costs are based on a historical average of costs. The Commission finds the forecast methodology and forecast costs for the south to be reasonable.

523. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs in the south for the New Urban Service Lines program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1.

6.6.16 Urban Feeder Mains

524. This ongoing program consists of the installation of the portion of a distribution mains from the regulating station to the urban mains extension serving a subdivided lot, which is referred to as the urban feeder main.⁴¹⁴ ATCO Gas explained that urban feeder mains are a portion of the expenditures required to add capacity to serve new customers. ATCO Gas further noted that pursuant to its obligation to serve, ATCO Gas must respond to the requests of new urban customers.⁴¹⁵

525. ATCO Gas is seeking capital tracker treatment for the Urban Feeder Mains program for 2015 only and in its north service area only. The capital expenditures for ATCO Gas in 2013 were \$4.1 million in the north and \$4.1 million in the south, and are forecast to be \$5.0 million in the north and \$3.3 million in the south, and \$4.8 million in the north and \$3.1 million in the south in 2014 and 2015, respectively. Net capital additions for 2013 were \$4.1 million in the north and \$2.0 million in the south and are forecast to be \$5.3 million in the north and \$5.6 million in the south in 2014 and \$4.8 million in the north and \$3.1 million in the south in 2015.⁴¹⁶

526. ATCO Gas provided information with respect to the project assessment test in Section 4.3.11 of the application. A variance analysis was provided in Section 5.2.11 of the application. The business case and engineering studies are included in Appendix B11.

⁴¹⁴ Exhibit 11, Appendix B11, paragraph 10.

⁴¹⁵ Exhibit 11, Appendix B11, paragraphs 2-3.

⁴¹⁶ Exhibit 8, application, Schedule A5.

527. ATCO Gas explained that this program is driven by customer growth and can have a significant range of feeder main diameters, lengths and complexity of installation. These projects are closely tied to the installation of new regulating meter stations and while they are driven by growth, they are not directly tied to new customer additions.⁴¹⁷ When a need for supply is identified, the capacity of the existing feeder mains, distribution mains and regulating stations is reviewed. ATCO Gas explained that once a developer receives approval, its decision to proceed with construction can be affected by changing demographics, market demand, interest rates and legislation. As such, ATCO Gas is required to make frequent adjustments to the planned timing of these projects.⁴¹⁸

528. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital additions for this program in the amount of \$8.0 million for 2011 and \$7.9 million for 2012. ATCO Gas's actual capital additions for this program were \$7.3 million in 2011 and \$11.2 million in 2012, a variance of negative \$0.7 million in 2011 and \$3.3 million in 2012. In its business case, ATCO Gas explained that expenditures in 2011 were below the approved costs as a result of lower demand from developers to service subdivisions with feeder mains in the south and expenditures in 2012 increased over the forecast due to higher demand from developers, mostly in the north.⁴¹⁹

529. In ATCO Gas's 2013 capital tracker application, ATCO Gas forecast capital additions for this program in the amount of \$8.5 million. ATCO Gas's actual capital additions for this program were \$8.2 million, a variance of \$0.3 million. ATCO Gas explained that expenditures in 2013 were \$2.0 million below forecast in the north due to lower demand from developers and \$1.7 million above forecast in the south due to increased demand from developers. ATCO Gas is not seeking capital tracker treatment for this program in 2013.⁴²⁰

530. ATCO Gas stated that it completes an analysis of alternatives for each project under this program.⁴²¹ In an undertaking, ATCO Gas provided an example of the least-cost alternative analysis that it completes for each project.⁴²² None of the interveners objected to this method.

531. In the 2014-2015 capital tracker and 2013 true-up application, ATCO Gas forecast capital additions associated with this program to be \$8.26 million in 2014 and \$7.93 million in 2015.⁴²³ ATCO Gas is not seeking capital tracker treatment for this program in 2014 or in the south in 2015.⁴²⁴ ATCO Gas explained that it used a three-year historical average plus inflation forecast approach because it cannot control the timing of this work to determine the 2014 and 2015 cost forecasts.⁴²⁵

532. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

⁴¹⁷ Exhibit 11, Appendix B11, paragraph 4.

⁴¹⁸ Exhibit 11, Appendix B11, paragraphs 13-18.

⁴¹⁹ Exhibit 4, application, paragraphs 703-706.

⁴²⁰ Exhibit 4, application, paragraphs 707-709.

⁴²¹ Transcript, Volume 5, page 823, line 3 (Mr. Smetaniuk).

⁴²² Exhibit 72.01, ATCO Gas Undertaking 16.

⁴²³ Exhibit 4, application, paragraph 367.

⁴²⁴ Exhibit 4, application, paragraph 355.

⁴²⁵ Exhibit 11, Appendix B13, paragraphs 25-27.

Commission findings

533. In 2011, ATCO Gas had approved forecast capital expenditures for the Urban Feeder Mains program in the amount of \$8.0 million. It had actual capital expenditures of \$7.3 million. The variance is negative \$0.7 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$7.9 million. It had actual capital expenditures of \$11.2 million. The variance results in an overage of \$3.3 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

534. ATCO Gas did not previously request capital tracker treatment for the Urban Feeder Mains program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

535. The Commission has reviewed the business case and the evidence on the record with respect to the Urban Feeder Mains program and considers that the evidence provided by ATCO Gas supports a finding that the program is required to maintain service reliability and safety at adequate levels in 2015.

536. With respect to the scope, level and timing of this program in 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2015, to be reasonable.

537. ATCO Gas's forecast capital additions associated with this program are \$7.93 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has also reviewed the information supporting ATCO Gas's forecasts and finds the total annual costs forecast to be reasonable based on the three-year historical average forecast approach. The Commission finds the forecast methodology and forecast costs for the north in 2015 to be reasonable.

538. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Urban Feeder Mains program are reasonable as proposed for 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1 in 2015.

6.6.17 Urban Main Extensions

539. This ongoing program consists of the installation of the portion of a distribution main from the urban feeder main to a new, subdivided lot, which is referred to as the urban main extension.⁴²⁶ ATCO Gas further noted that pursuant to its obligation to serve, ATCO Gas must respond to the requests of new urban customers.

⁴²⁶ Exhibit 11, Appendix B13, paragraph 8.

540. ATCO Gas is seeking capital tracker treatment for the Urban Main Extensions program for 2015 in the north service area only. The capital expenditures for ATCO Gas in 2013 were \$13.5 million in the north and \$7.1 million in the south, and are forecast to be \$13.9 million in the north and \$9.2 million in the south, and \$13.5 million in the north and \$8.9 million in the south in 2014 and 2015, respectively. Net capital additions for 2013 were \$12.9 million in the north and \$6.6 million in the south and are forecast to be \$14.6 million in the north and \$9.2 million in the south in 2014 and \$13.5 million in the north and \$8.9 million in the south in 2015.⁴²⁷

541. ATCO Gas provided information with respect to the project assessment test in Section 4.3.13 of the application. A variance analysis was provided in Section 5.2.13 of the application. The business case and engineering studies are included in Appendix B13.

542. ATCO Gas explained that once a developer receives approval, its decision to proceed with construction can be affected by changing demographics, market demand, interest rates and legislation. As such, ATCO Gas is required to make frequent adjustments to the planned timing of these projects. Further, ATCO Gas cannot control the number of main extensions installed in a given year as the required number of mains extensions required is driven by external factors such as new housing markets, population growth, municipal zoning, development or annexations.⁴²⁸ In addition to its inability to control the number of extensions, ATCO Gas explained that it also cannot control the timing and, therefore, costs. The costs of completing these projects are higher in winter, but ATCO Gas explained that it is unable to recover additional costs from a third party who requires work in the winter and it is unable to delay the work until the season has changed due to its obligation to serve.⁴²⁹

543. ATCO Gas explained that year-over-year unit costs can change based on a number of factors, all of which are outside of ATCO Gas's control. These factors include lot density, number of commercial lots served, amount of winter work, number of larger pipes installed, and number of lots installed outside of the Edmonton and Calgary regions.⁴³⁰

544. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital additions for this program in the amount of \$21.7 million for 2011 and \$21.3 million for 2012. ATCO Gas's actual capital additions for this program were \$16.5 million in 2011 and \$24.1 million in 2012, a variance of negative \$5.2 million in 2011 and \$2.8 million in 2012. ATCO Gas explained that expenditures in 2011 were below the approved costs as a result of fewer actual installed units in both the north and the south, lower costs of land rights and annexation in the north, and lower unit costs in the south. Expenditures in 2012 increased over the forecast due to higher unit costs and higher costs of land and annexation in both the north and the south.⁴³¹

545. In ATCO Gas's 2013 capital tracker application, ATCO Gas forecast capital additions for this program in the amount of \$21.2 million. ATCO Gas's actual capital additions for this program were \$20.5 million, a variance of negative \$0.7 million. ATCO Gas explained that expenditures in 2013 were \$3.0 million above forecast in the north due to a larger number of units being installed and higher costs of land rights and annexation and \$3.7 million below

⁴²⁷ Exhibit 8, application, Schedule A5.

⁴²⁸ Exhibit 11, Appendix B13, paragraphs 13-17.

⁴²⁹ Transcript, Volume 5, page 832, lines 1-13 (Mr. Smetaniuk).

⁴³⁰ Exhibit 36.02, UCA-AG-26.

⁴³¹ Exhibit 4, application, paragraphs 718-722.

forecast in the south due to fewer units being installed and lower than forecast unit costs. ATCO Gas is not seeking capital tracker treatment for this program for 2013.⁴³²

546. In the 2014-2015 capital tracker and 2013 true-up application, ATCO Gas forecast capital additions associated with this program to be \$23.1 million in 2014 and \$22.4 million in 2015.⁴³³ ATCO Gas is not seeking capital tracker treatment for this program in 2014 or in the south in 2015.⁴³⁴ ATCO Gas explained that it uses a unit cost approach to forecast the urban mains extensions with a three-year average approach to forecast the costs associated with land rights and annexations.⁴³⁵

547. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

Commission findings

548. In 2011, ATCO Gas had approved forecast capital expenditures for the Urban Main Relocations program in the amount of \$7.8 million. It had actual capital expenditures of \$10.8 million. The variance results in an overage of \$3.0 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$5.3 million. It had actual capital expenditures of \$8.0 million. The variance results in an overage of \$2.7 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

549. ATCO Gas did not previously request capital tracker treatment for the Urban Main Extension program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

550. ATCO Gas is seeking capital tracker treatment for the Urban Mains Extensions program for 2015 in the north service area only. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to ATCO Gas's Urban Main Extensions program and considers that the evidence provided by ATCO Gas supports a finding that the program is required to maintain service reliability and safety at adequate levels in 2015.

551. With respect to the scope, level and timing of this program for 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2015, to be reasonable

552. ATCO Gas's forecast capital additions associated with this program are \$22.4 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has

⁴³² Exhibit 4, application, paragraphs 723-725.

⁴³³ Exhibit 4, application, paragraph 410.

⁴³⁴ Exhibit 4, application, paragraph 355.

⁴³⁵ Exhibit 11, Appendix B13, paragraphs 19-22.

reviewed the information supporting ATCO Gas's forecasts and finds the total annual cost forecast to be reasonable based on a unit cost approach to forecast the urban main extensions based on three-year average costs. The Commission finds the forecast costs for the north in 2015 to be reasonable.

553. Given the above, the Commission finds that the evidence provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Urban Mains Extension program are reasonable as proposed for 2015. Accordingly, the Commission finds that this program satisfies the project assessment requirement of Criterion 1.

6.6.18 Urban Main Improvements

554. This ongoing program consists of upgrading existing mains, upgrading supply pressure, and installing and replacing valves. ATCO Gas stated that pursuant to its obligation to provide safe and reliable gas distribution service, ATCO Gas must construct facilities that accommodate changes in demand on the distribution system, and that ensure the safe isolation of systems in case of an emergency.⁴³⁶

555. ATCO Gas is seeking capital tracker treatment for the Urban Main Improvements program for the years 2014 and 2015 for the north service areas. The capital expenditures for ATCO Gas in 2013 were \$2.5 million in the north and \$2.8 million in the south, and are forecast to be \$5.7 million in the north and \$2.6 million in the south, and \$5.5 million in the north and \$2.5 million in the south in 2014 and 2015, respectively. Net capital additions for 2013 were \$2.3 million in the north and \$2.0 million in the south and are forecast to be \$6.2 million in the north and \$3.5 million in the south in 2014 and \$5.5 million in the north and \$2.6 million in the south in 2015.⁴³⁷

556. ATCO Gas provided information with respect to the project assessment test in Section 4.3.14 of the application. A variance analysis was provided in Section 5.2.14 of the application. The business case and engineering studies are included in Appendix B14.

557. ATCO Gas explained that improvements to this system are required as the municipalities continue to grow, in-fill, and change, and as assets age. This program is required to loop, upsize, or otherwise increase the capacity of the existing distribution system, and to install and replace valves. ATCO Gas further noted that increased demand will result in outages if upgrades are not completed and that buried valves degrade over time and eventually leak or seize.⁴³⁸

558. In ATCO Gas's 2011-2012 GRA, the Commission approved forecast capital additions for this program in the amount of \$6.9 million for 2011 and \$5.8 million for 2012. ATCO Gas's actual capital additions for this program were \$8.5 million in 2011 and \$4.8 million in 2012, a variance of \$1.6 million in 2011 and \$1.0 million in 2012. ATCO Gas explained that expenditures in 2011 were above the approved costs as a result of a high amount of improvement work required in the north, primarily associated with the Red Deer Gate project, the Sherwood Park Gate Station project, and projects related to the Slave Lake fire. Expenditures in 2012

⁴³⁶ Exhibit 11, Appendix B14, paragraph 2.

⁴³⁷ Exhibit 8, application, Schedule A5.

⁴³⁸ Exhibit 11, Appendix B14, paragraphs 6, 9, 11 and 14.

decreased from forecast due to lower demand for system looping and upgrade work in the south.⁴³⁹

559. In ATCO Gas's 2014-2015 capital tracker and 2013 true-up application, ATCO Gas forecast capital additions for this program in the amount of \$7.6 million. ATCO Gas's actual capital additions for this program were \$5.3 million, a variance of negative \$2.3 million. ATCO Gas explained that expenditures in 2013 were \$3.4 million below forecast in the north due to lower demand for system looping and upgrade work and \$1.1 million above forecast in the south mostly due to a major upgrade project in Calgary. ATCO Gas is not seeking capital tracker treatment for this program in 2013.⁴⁴⁰

560. In the 2014-2015 capital tracker and 2013 true-up application, ATCO Gas forecast capital additions associated with this program to be \$8.32 million in 2014 and \$8 million in 2015.⁴⁴¹ ATCO Gas is not seeking capital tracker treatment for this program in the south for either 2014 or 2015.⁴⁴² ATCO Gas explained that it obtains its forecast for this program using a three-year historical average cost, since predicting the number of improvements to mains or valves that will be required in an upcoming period is not generally possible, due to short lead times for these projects.⁴⁴³

561. The Commission notes that with the exception of grouping concerns and concerns with adequacy of alternatives provided by ATCO Gas, which are addressed in Section 5 and Section 10.3, respectively, none of the interveners raised any issues with this program.

Commission findings

562. In 2011, ATCO Gas had approved forecast capital expenditures for the Urban Main Improvements program in the amount of \$6.9 million. It had actual capital expenditures of \$8.5 million. The variance results in an overage of \$1.6 million. In 2012, ATCO Gas had approved forecast capital expenditures for this program in the amount of \$5.8 million. It had actual capital expenditures of \$4.8 million. The variance is negative \$1.0 million. The Commission has reviewed the evidence on the record, including the costs variance analysis, and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission considers that there is sufficient support for a finding that the capital additions in 2011 and 2012 were prudent.

563. ATCO Gas did not previously request capital tracker treatment for the Urban Main Improvements program in its 2013 capital tracker application. However, at paragraph 48 of Decision 2013-435, the Commission indicated that companies remained free to incur expenditures prior to applying for capital tracker approval.

564. ATCO Gas is seeking capital tracker treatment for the Urban Main Improvements program for the years 2014 and 2015 for the north service area only. The Commission has reviewed the business case provided by ATCO Gas and the evidence on the record with respect to ATCO Gas's Urban Main Improvements program and considers that the evidence provided by

⁴³⁹ Exhibit 4, application, paragraphs 727-732.

⁴⁴⁰ Exhibit 4, application, paragraphs 733-735.

⁴⁴¹ Exhibit 4, application, paragraph 428.

⁴⁴² Exhibit 4, application, paragraph 418.

⁴⁴³ Exhibit 11, Appendix B14, paragraph 16.

ATCO Gas supports a finding that the program is required to maintain service reliability and safety at adequate levels in 2014 and 2015.

565. With respect to the scope, level and timing of this program for 2014 and 2015, the Commission has reviewed the business case and the relevant portions of the record for this program and finds the forecast scope, level and timing of the program for 2014 and 2015, to be reasonable. ATCO Gas's forecast capital additions associated with this program are \$8.32 million in 2014 and \$8 million in 2015. The Commission has reviewed the costs of the forecast capital additions in light of the evidence supporting these costs and the procurement, construction and project cost management practices outlined in ATCO Gas's Capital Project Delivery model. The Commission has reviewed the information supporting ATCO Gas's forecasts and finds the total annual cost forecast to be reasonable based on three-year historical average cost approach. The Commission finds the forecast methodology and forecast costs for the north in 2014 and 2015 to be reasonable.

566. Given the above, the Commission finds that the information provided by ATCO Gas supports a finding that the scope, level, timing and forecast costs for the Urban Main Improvements program are reasonable as proposed for 2014 and 2015. Accordingly, the Commission finds that this program satisfies the program assessment requirement of Criterion 1 for 2014 and 2015.

7 Accounting Test under Criterion 1 – the project must be outside of the normal course of the company's ongoing operations and Commission conclusion on Criterion 1

7.1 ATCO Gas's accounting test model

567. As explained in Decision 2013-435, the purpose of the accounting test is to determine whether a project or program (depending on the approved level of grouping) proposed for capital tracker treatment is outside the normal course of the company's ongoing operations. This is achieved by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the project or program.⁴⁴⁴

568. In Decision 2013-435, the Commission determined that the accounting test should be based on a "project net cost approach," which is sufficient to satisfy the Commission that all of the forecast or actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy Criterion 1. Under this approach, the extent to which a project is underfunded by the I-X mechanism is calculated by comparing the forecast or actual revenue requirement for that project to the going-in revenue historically associated with a similar type of capital expenditure escalated by I-X and including the effect on revenue of any changes in billing determinants.⁴⁴⁵ The Commission referred to the latter component, the effect on revenue of any changes in billing determinants, which is calculated as the forecast percentage change in billing determinants in any given PBR year, as "Q."⁴⁴⁶

⁴⁴⁴ Decision 2013-435, paragraphs 149-150.

⁴⁴⁵ Decision 2013-435, paragraphs 262-263.

⁴⁴⁶ Decision 2013-435, paragraph 499.

569. ATCO Gas submitted that in its 2014-2015 capital tracker and 2013 true-up application, it has performed the accounting test in accordance with the methodology set out in Decision 2013-435,⁴⁴⁷ which involved the following general steps:⁴⁴⁸

- Calculate the revenue requirement associated with the forecast capital additions net of customer contributions for each project or program proposed for capital tracker treatment in the coming or historical PBR year. The revenue requirement calculations use the mid-year convention and include the cost-of-service components set out in paragraph 977 of Decision 2012-237.
- Identify the portion of rate base associated with the going-in rates, for each capital expenditure category that is similar to a project or program proposed for capital tracker treatment based on the company's proposed grouping of projects, and calculate the amount of the going-in revenue requirement associated with each capital expenditure category.
- Determine the amount of revenue that the I-X mechanism will provide in a PBR year for a project or program proposed for capital tracker treatment by escalating the calculated going-in revenue requirement associated with the capital expenditure category similar to that project or program by the I-X index multiplied by Q.
- Calculate the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year by subtracting the amount provided under the I-X mechanism for that project or program from the forecast or actual revenue requirement for that project or program for the PBR year.

570. ATCO Gas's accounting test model for the 2014-2015 capital tracker and 2013 true-up application was provided in Appendix A to the application, schedules A1.1 to A8.⁴⁴⁹ When compared to the accounting test models provided by other companies that file capital tracker applications, ATCO Gas used a slightly different approach that linked its calculations to the balances in its fixed asset accounts. For accounts that required estimates to be made to determine the historical rate base, ATCO Gas did not separately calculate the capital additions and accumulated depreciation, as most other companies have done. ATCO Gas explained why it used a different approach, stating:

Separately calculating (and estimating, where required) capital additions and depreciation would require ATCO Gas to apply allocation methodologies for each and every year that the assets have been in place that are then added together to determine an estimate of net rate base by capital program category. Along with the significant amount of allocation that is required, this methodology would also result in a residual when comparing this result to the actual total rate base. This residual would then have to be re-allocated to the capital program categories using yet another methodology. Given the financial records it had available, ATCO Gas determined that calculating the 2010 net rate base for the capital projects undertaken in the recent history (as shown in Schedules A2.4 to A2.6) and then allocating the remainder of the 2010 net rate base using a 10 year historical average spend results in a reasonable apportionment of its rate base to the capital program categories while minimizing the need for multiple allocations. It should be noted that

⁴⁴⁷ Exhibit 4, ATCO Gas application, paragraph 44.

⁴⁴⁸ Decision 2013-435, paragraphs 497-501.

⁴⁴⁹ Exhibit 5, Appendix A, Accounting and Materiality Test. Excel versions of the calculations provided in exhibits 6, 7 and 8. The accounting test was amended in exhibits 27.01 and 27.02.

approximately 80% of the requested K factor in this Application is on those programs that ATCO Gas was able to directly calculate the rate base for without the need for rate base allocation methodologies.⁴⁵⁰

Commission findings

571. The Commission has reviewed ATCO Gas's schedules that make up its accounting test analysis in the 2014-2015 capital tracker and 2013 true-up application and finds these schedules to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. The Commission is aware that the methodology differs from the methodology used by other companies that file capital tracker applications, but finds that ATCO Gas's methodology achieves the same objective of providing a reasonably accurate representation of the historical rate base for each capital project or program given the quality of data that exists in the company's accounting records. Subject to the determination of certain issues discussed in sections 7.2 to 7.5, the Commission is satisfied, in general, that ATCO Gas's accounting test model can be used to demonstrate that all of the forecast or actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the accounting test component of Criterion 1.

572. Sections 7.2 to 7.5 deal with issues concerning certain inputs into ATCO Gas's accounting test; specifically, the I-X index and Q factor, the weighted average cost of capital (WACC) rate, income tax calculations and putting a limit on the K factor in the true-up process. The Commission's determinations on whether ATCO Gas's projects or programs proposed for capital tracker treatment in 2013-2015 satisfy the accounting test and the project assessment requirement under Criterion 1, are set out in Section 7.6.

7.2 I-X and Q factor used in the accounting test

573. In the accounting test for the 2013 capital trackers, ATCO Gas used the 2013 I-X index of 1.71 per cent approved in Decision 2013-072.⁴⁵¹ The 2013 Q factor values were 1.94 per cent in the north and 2.02 per cent in the south, which were based on the billing determinants that were approved in Decision 2013-270.^{452 453}

574. In the accounting test for 2014, ATCO Gas used the 2014 I-X index of 1.59 per cent approved in Decision 2013-460.⁴⁵⁴ In the accounting test for 2015, ATCO Gas used an I-X value of 1.59 per cent as a placeholder because the Commission had not yet approved the 2015 I-X index at the time ATCO Gas submitted its 2014-2015 capital tracker and 2013 true-up

⁴⁵⁰ Exhibit 34.02, AUC-AG-2(a).

⁴⁵¹ 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., Proceeding 2130, Application 1608826-1, March 4, 2013, paragraph 28.

⁴⁵² 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., Proceeding 2477, Application 1609367, July 19, 2013.

⁴⁵³ Exhibit 4, ATCO Gas, paragraph 48.

⁴⁵⁴ Decision 2013-460: ATCO Gas and Pipelines Ltd. 2014 Annual PBR Rate Adjustment Filing, Proceeding 2826, Application 1609915-1, December 19, 2013, paragraph 37.

application.⁴⁵⁵ ATCO Gas indicated that it will update the placeholder for the 2015 I-X mechanism as part of its 2015 annual PBR rates adjustment filing.⁴⁵⁶

575. The 2014 Q factor of 2.34 per cent in the north and 1.70 per cent in the south were based on ATCO Gas's final forecast of 2014 billing determinants from its 2014 annual PBR rate adjustment filing. The 2014 billing determinants forecast was approved in Decision 2013-460. The 2015 Q factor of 1.78 per cent in the north and 1.57 per cent in the south were estimated because the Commission had not yet approved final billing determinants for 2015 at the time ATCO Gas submitted its 2014-2015 capital tracker and 2013 true-up application. However, the 2015 Q factor was estimated using "the 2014 approved customer additions as an estimate for 2015 additions in calculating the 2015 billing determinants."⁴⁵⁷

Commission findings

576. The accounting test and K factor calculations use the I-X index and Q factor as inputs. It is the Commission's preference to use an I-X index that has previously been approved in a separate annual PBR rates adjustment proceeding and a Q factor based on an approved billing determinants forecast, whenever possible, if timing allows. For other aspects of the PBR plans, where the I-X index and billing determinants forecasts are used, the values are not subsequently updated to reflect actuals when they become available.

577. The Commission has reviewed the 2013 true-up and 2014 forecast I-X indices and Q factors used in the accounting test, and finds that ATCO Gas has correctly used the values approved in the 2013 and 2014 annual PBR rate adjustment proceedings.

578. Because the 2014-2015 capital tracker and 2013 true-up application was filed in advance of its 2015 annual PBR rate adjustment filing, ATCO Gas did not have the approved I factor, nor the approved forecast of billing determinants, on which the Q factor is based, for 2015. ATCO Gas had to estimate these values based on the 2014 approved value for the 2015 I factor, and based on the previously approved number of customer additions for 2014 to estimate the number of customer additions in 2015 as the methodology for forecasting billing determinants for the 2015 Q factor. ATCO Gas indicated that it will update the placeholder for the 2015 I-X mechanism as part of its 2015 annual PBR rates adjustment filing.⁴⁵⁸

579. Regarding the I-X index and Q factor values used for purposes of capital tracker forecast applications, the Commission acknowledges that, because these applications are typically filed before the September 10 date of the annual PBR rate adjustment filing, a company may be required to estimate the I factor and Q factor for the coming year. In the accounting test for the 2014 capital tracker forecast, ATCO Gas used the approved 2014 I-X index and Q factor values, as they were known at the time of the application. However, there were no approved values for 2015. Therefore, in the accounting test for 2015, ATCO Gas used the I-X value of 1.59 per cent, based on the 2014 value.⁴⁵⁹ ATCO Gas's 2015 Q factors of 1.78 per cent in the north and 1.57 per cent in the south were based on the previously approved number of customer additions for 2014 to estimate the number of customer additions in 2015 as the methodology for forecasting

⁴⁵⁵ Exhibit 4, ATCO Gas application, paragraph 47.

⁴⁵⁶ Exhibit 4, ATCO Gas application, paragraph 47.

⁴⁵⁷ Exhibit 4, ATCO Gas application, paragraph 48.

⁴⁵⁸ Exhibit 4, ATCO Gas application, paragraph 47.

⁴⁵⁹ Exhibit 4, ATCO Gas application, paragraph 47.

billing determinants.⁴⁶⁰ The Commission accepts, in principle, the use of such forecasting methods when the final approved numbers are not available.

580. Nevertheless, the Commission observes that, since the filing of ATCO Gas's 2014-2015 capital tracker and 2013 true-up application, the 2015 I-X index and billing determinants forecast have been approved in Decision 2014-363,⁴⁶¹ which deals with ATCO Gas's 2015 annual PBR rate adjustment filing. To minimize future true-ups, the Commission directs ATCO Gas, in its compliance filing to this decision, to use the 2015 I-X index value and the Q factors based on the forecast billing determinants approved in Decision 2014-363 for purposes of its 2015 capital tracker forecast accounting test.

7.3 WACC rate

581. As set out in Section 4.4 of Decision 2013-435, the accounting test, as it relates to revenue calculations, consists of two components. The first component is the revenue provided under the I-X mechanism for a project or program proposed for capital tracker treatment. The second component is the revenue requirement calculations based on the forecast or actual capital additions for that project or program for a given PBR year.

582. In both the 2013 capital tracker true-up and the 2014-2015 capital tracker forecast, ATCO Gas used the WACC rate of 7.12 per cent from its going-in rates in the first component of the accounting test.⁴⁶² For the second component of the accounting test, ATCO Gas also used a WACC rate of 7.12 per cent. ATCO Gas noted that the "approved amounts for 2013 - 2015 may be subject to change as a result of the current [Proceeding 2191] and/or future Generic Cost of Capital proceedings."⁴⁶³ At the oral hearing, Ms. Berger confirmed that ATCO Gas does not plan to update its debt rates to reflect the actual costs of debt in its capital tracker true-up applications.⁴⁶⁴

583. With respect to issues related to the WACC rates to be used in the accounting test, ATCO Gas stated: "The assumptions regarding WACC for the first and second components of the accounting test calculation are currently being addressed in Proceeding ID 3434 and ATCO Gas has submitted its Argument and Reply Argument on this matter in that proceeding. As such, ATCO Gas will not be restating its argument on this issue in this proceeding."⁴⁶⁵

Commission findings

584. The Commission initiated Proceeding 3434 to examine the possible use of a consistent set of assumptions with respect to the values comprising the companies' respective WACC rates used in capital tracker applications; specifically, debt rates, return on equity (ROE) rates and capital structure, both on a forecast and actual basis. On February 5, 2015, the Commission

⁴⁶⁰ Exhibit 4, ATCO Gas application, paragraph 48.

⁴⁶¹ Decision 2014-363: ATCO Gas & Pipelines Ltd. 2015 Annual PBR Rate Adjustment Filing, Proceeding 3407, Application 1610837-1, December 19, 2014.

⁴⁶² Exhibit 4, ATCO Gas application, table following paragraph 46.

⁴⁶³ Exhibit 4, ATCO Gas application, paragraph 49.

⁴⁶⁴ Transcript, Volume 3, page 492 (Ms. Berger).

⁴⁶⁵ Exhibit 90.01, ATCO Gas argument, paragraph 50.

released Decision [3434-D01-2015](#)⁴⁶⁶ to clarify the WACC assumptions that should be used in capital tracker calculations.

585. At a high level, in that decision, the Commission found that companies are required to update their WACC assumptions in the second component of the accounting test to reflect new debt issuances and changes to the approved return on equity and capital structure that result from generic cost of capital proceedings. With respect to the ROE and capital structure values to be incorporated into the WACC calculations, the Commission stated:

70. The Commission acknowledges that all parties in the proceeding agreed that the ROE and capital structure should be updated for the purposes of the revenue requirement calculation in the second component of the accounting test to reflect the outcomes of Proceeding 2191. This is consistent with the Commission's findings set out in paragraph 977 of Decision 2012-237. Accordingly, the Commission directs the companies to update the ROE and capital structure used in the second component of the accounting test to reflect the approved values resulting from the Proceeding 2191. This will include all changes to the ROE and capital structure that are directed in the decision in Proceeding 2191, and not just those that are directly made to account for the change in risk profile that may have resulted from the transition to PBR. Furthermore, the Commission considers that in the second component of the accounting test, it is necessary to update the ROE to incorporate the most recently approved ROE, and those values will continue to be updated in future GCOC proceedings. Similar to the ROE, the Commission considers that the capital structure also should be revised in the second component of the accounting test to match decisions made in future GCOC proceedings. To the extent there is a time lag between when capital tracker decisions are released and when the decisions on future GCOC proceedings for the same year are released, similar to the current situation, where the Commission has issued some decisions on 2013 capital tracker true-up applications but the ROE and capital structure for 2013 have not yet be finalized in the decision in Proceeding 2191, all capital tracker amounts will remain interim until the ROE and capital structure have been finalized by the Commission for the year in question.⁴⁶⁷

586. With respect to the calculation of debt rates that are incorporated into the WACC calculations, the Commission stated:

76. The Commission considers that using the forecast cost of embedded debt and preferred shares for the year in which the capital tracker is being applied for is a reasonable method of matching capital tracker revenues to costs. As such, the Commission directs the companies in their 2016 and 2017 capital tracker applications to use their forecast cost of embedded debt and preferred shares, if applicable, when calculating the revenue requirement associated with a proposed capital tracker. The companies are not required to update the debt rates used in their 2014 and 2015 forecast capital tracker applications because these will eventually be trued-up to actual, and a revised forecast is not required to ensure that the final rates will eventually reflect the correct debt rates.⁴⁶⁸

⁴⁶⁶ Decision 3434-D01-2015: Distribution Performance-Based Regulation, Commission-Initiated Review of Assumptions Used in the Accounting Test for Capital Trackers, Proceeding 3434, Application 1610877-1, February 5, 2015.

⁴⁶⁷ Decision 3434-D01-2015, paragraph 70.

⁴⁶⁸ Decision 3434-D01-2015, paragraph 76.

587. In addition, the Commission made the following direction with respect to the need for true-up adjustments:

92. In summary, the Commission directs that in capital tracker true-up applications, for the second component of the accounting test, a company's WACC will reflect the company's current embedded debt rate based on its actual debt issues, and will use the ROE and capital structure for the year, as approved in the most recent Commission decision establishing the deemed ROE and capital structure for the company.⁴⁶⁹

588. Accordingly, ATCO Gas is directed to incorporate into its compliance filing to this decision all changes to 2013, 2014 and 2015 WACC rates directed by the Commission in Decision 3434-D01-2015, including changes, if any, that result from the Commission's decision in Proceeding 2191.

7.4 Income tax calculations

589. In its application, ATCO Gas explained that income tax expenses assigned to program categories were determined taking the return associated with each program category, subtracting interest expense, adding back depreciation expense, deducting capital cost allowance (CCA) and other deductibles, and multiplying the result by the income tax rate.⁴⁷⁰ ATCO Gas explained that the capital cost allowance deductions were assigned program categories by directly assigning the capital cost allowance deductions for certain classes to the specific project categories where a direct relationship exists (e.g., information technology projects) and, for other classes where a direct relationship does not exist, the CCA deductions were allocated to programs based on the weighted depreciation expense for each program.⁴⁷¹ The Commission and interveners sought clarification of this high-level explanation of the income tax calculations throughout the proceeding.

590. In an information response to the Commission to provide the calculations that support the filed tax adjustments for each project or program, ATCO Gas provided a breakdown of its income tax calculations identifying return, interest expense, depreciation, capital cost allowance and other deductions as the components that comprise the tax amount for each grouping.⁴⁷² As part of its response, ATCO Gas explained that the other deductions are composed of certain costs that are capitalized for accounting purposes that are immediately deductible in the year incurred for tax purposes, including indirect capital costs, removal costs and capitalized pension.⁴⁷³ ATCO Gas explained that it determined the amounts of the other deductions by using the amounts approved for 2012 in ATCO Gas's 2011/2012 GRA, and because these amounts were forecast by capital program, no allocation methodologies were necessary.⁴⁷⁴

591. The CCA stated that it is concerned that ATCO Gas is proposing to charge customers \$5.2 million in taxes for 2013 under its proposed capital trackers. The CCA noted that in 2012,

⁴⁶⁹ Decision 3434-D01-2015, paragraph 92.

⁴⁷⁰ Exhibit 4, ATCO Gas application, paragraphs 68 and 77.

⁴⁷¹ Exhibit 4, ATCO Gas application, paragraphs 69 and 79.

⁴⁷² Exhibit 34.06, AUC-AG-5, attachment.

⁴⁷³ Exhibit 34.02, AUC-AG-5(c).

⁴⁷⁴ Exhibit 34.02, AUC-AG-5(c).

the company as a whole had taxes payable of negative \$667,000, and in 2013 it reported a tax amount of \$13,212,000.⁴⁷⁵

592. The CCA commented that ATCO Gas's income tax approach in the capital tracker accounting test calculations focused on utility income, the depreciation capital cost allowance differential, less interest and other deductions, multiplied by the statutory rate for each project or program.⁴⁷⁶ The CCA stated that "while this approach or accounting test conceptually isolates projects and develops a pro forma revenue requirement that is not how the Tax reporting or tax return (T2) is developed."⁴⁷⁷ The CCA argued that, to be fair to customers, there are likely a number of additional income tax deductions that ATCO Gas should include in its capital tracker accounting test calculations, although the CCA did not specifically identify what those deductions would be, and why they are attributable to capital tracker additions.⁴⁷⁸ The CCA recommended that "ATCO should be required to file its 2013 T2 (and subsequent years T2's as they become available) as part of its compliance filing."⁴⁷⁹

593. ATCO Gas replied to the CCA's argument to include additional deductions by stating "that its tax calculation incorporates not only the income tax expense directly attributable to the equity portion of return and the income tax shield associated with CCA and depreciation but also the 2012 going-in T2S1 tax deductions for capitalized pension, indirect capital costs and removal costs."⁴⁸⁰ While the CCA did not specifically identify what additional deductions should be included in ATCO Gas's capital tracker calculations in this proceeding, ATCO Gas noted that the CCA made reference to argument it submitted in ATCO Electric's 2013-2015 PBR capital tracker proceeding (Proceeding 3218) to support its position that it may be necessary to include additional deductions in the calculations. Accordingly, ATCO Gas explained why it is not necessary to include each of the additional deductions, that the CCA proposed ATCO Electric include, in the ATCO Gas capital tracker calculations because they are not directly related to the capital additions that make up capital trackers.⁴⁸¹ In addition, ATCO Gas considered that it should not be required to file its T2 tax schedules as part of capital tracker applications, as recommended by the CCA, because capital tracker applications are not full cost of service applications and "there are many tax items included in the T2S1 that are not relevant to the capital tracker programs."⁴⁸²

594. Noting the complexity of tax issues, the CCA recommended that a capital tracker tax deferral account be established until such time as the tax issue can be resolved between parties.⁴⁸³ In response to this recommendation, ATCO Gas stated:

... the CCA has not submitted any evidence in this proceeding, nor raised any issues in the oral hearing regarding ATCO Gas' tax calculations included in the accounting test. ATCO Gas is unclear as to what exactly this deferral account would be deferring to. Given ATCO Gas already has a Commission-approved tax deferral related to immediate tax deductions, it is unclear as to how a new deferral account would work in conjunction

⁴⁷⁵ Exhibit 89.01, CCA argument, paragraph 105.

⁴⁷⁶ Exhibit 89.01, CCA argument, paragraph 106.

⁴⁷⁷ Exhibit 89.01, CCA argument, paragraph 107.

⁴⁷⁸ Exhibit 89.01, CCA argument, paragraph 107.

⁴⁷⁹ Exhibit 89.01, CCA argument, paragraph 113.

⁴⁸⁰ Exhibit 94.01, ATCO Gas reply argument, paragraph 132.

⁴⁸¹ Exhibit 94.01, ATCO Gas reply argument, paragraph 133.

⁴⁸² Exhibit 94.01, ATCO Gas reply argument, paragraph 140.

⁴⁸³ Exhibit 89.01, CCA argument, paragraph 112.

with the existing one or why one would even be necessary. ATCO Gas submits this request for an additional capital tracker deferral account is unnecessary and unsupported by any evidence.⁴⁸⁴

595. The CCA also stated that ATCO Gas did not adequately support the income tax amounts included in its capital tracker calculations, only providing a description of how the income tax calculations were done without actually showing the calculations. Accordingly, the CCA recommended:

The CCA also submits that AG should be directed to ensure that all calculations are included in all future filings. The CCA considers that a description of calculations in response to an information request is not equivalent to providing embedded calculations in supporting spreadsheets. Not providing formulas in the spreadsheet does not allow interveners and the AUC to model alternative methodologies or review the calculations.⁴⁸⁵

596. Beyond the issues raised by the CCA regarding which tax deductions should be included in capital tracker calculations and the lack of disclosure of the calculations, the Commission asked several questions regarding the assumptions used to allocate capital cost allowance deductions to the capital tracker groupings. The Commission asked questions about whether the project categories are allocated the right amount of capital cost allowance deductions using ATCO Gas's simplified method of assigning capital cost allowance deductions based on the amount of depreciation expense assigned to each grouping. Commission counsel asked several questions regarding whether this allocation methodology may be overly simplified because capital cost allowance uses a declining balance method for tax depreciation while accounting depreciation is on a straight line basis, and the tax depreciation rates used in capital cost allowance calculations are generally higher than the accounting depreciation rates used by a company. Commission counsel discussed ATCO Gas's method of allocating capital cost allowance deductions (where they could not be directly assigned) based on depreciation expense, and whether there was the potential to assign capital cost allowances inaccurately to capital tracker projects and programs in the following exchange with Ms. Berger:

Q. If CCA is done on a declining balance and depreciation is done more or less on a straight line basis, why should CCA be allocated on the basis of weighted depreciation expense for the various programs?

A. MS. BERGER: Certainly last week we heard this question being asked of ATCO Electric.

Q. I'm glad it's not a surprise, ma'am.

A. MS. BERGER: It's not a surprise.

Q. So you know exactly where we're going.

A. MS. BERGER: And that is a fair question, and I can tell you my staff are in the process of preparing that calculation.

Q. So, ma'am, maybe to short circuit this we can get to the requested undertaking similar to the one that was asked in the ATCO Electric proceeding. And if that's okay with you, ma'am, we'll go right there.

A. MS. BERGER: That's okay with me.⁴⁸⁶

⁴⁸⁴ Exhibit 94.01, ATCO Gas reply argument, paragraph 135.

⁴⁸⁵ Exhibit 89.01, CCA argument, paragraph 154.

⁴⁸⁶ Transcript, Volume 3, page 498.

597. As identified by Ms. Berger in the exchange above, Commission counsel asked many questions in the ATCO Electric 2013-2015 PBR capital tracker proceeding regarding whether the declining balance method used for income tax depreciation, which is different than the straight-line method of depreciation used for accounting purposes, may cause the allocation of capital cost allowance, based on depreciation expense, to be inaccurate. An example of the type of exchange that Ms. Berger made reference to in the quote above was referenced by the Commission at paragraph 478 of Decision 3218-D01-2015,⁴⁸⁷ where the following exchange between Commission counsel and Mr. McNabb in Proceeding 3218 was included in the decision:

Q. And but the capital tracker -- or you're dealing with new assets being acquired, and over time as more capital trackers are added, you would have a growing percentage of newer assets vis-à-vis what they were in 2012; right? That would be attracting the higher CCA rate?

A. MR. MCNABB: Agreed. I'll still not following what the end impact of that is, but I agree with that statement.

Q. So if that's the case, then, you would have a growing proportion of assets that are -- that are still in a state before crossover where the CCA rate would be in excess of the depreciation rate?

A. MR. MCNABB: Agree for those new assets.

Q. So by using an averaging effect that's based on a depreciation expense, depreciation rates, doesn't that understate the available CCA that should be applied in respect of this growing proportion of new assets?

A. MR. MCNABB: So, again, I appreciate you're equating CCA and depreciation. I do understand that logic you're pulling in here. But I keep going back to almost depreciation is smoke and mirrors that we could have put cost in here instead of depreciation, and you would have the same percentages because depreciation is allocated based on original cost in Schedule 2-1 and so is CCA. So it's cost really driving this not depreciation.⁴⁸⁸

598. As identified in the quote from Ms. Berger, ATCO Gas agreed, by way of an undertaking, to develop an alternative set of capital cost allowance allocation calculations. In its response to the undertaking, ATCO Gas described the alternative capital cost allowance allocation approach as follows:⁴⁸⁹

- Calculation of UCC pool additions
 - The first step performed by ATCO Gas was to assign capital costs eligible for immediate deduction for income tax purposes to the recently undertaken programs to arrive at CCA pool additions by year.
 - This assignment was achieved by determining the ratio of capital expenditures for these programs over distribution capital less AMR. Distribution capital less AMR was chosen as the denominator as it is reflective of the programs that attract the vast majority of the capital costs eligible for immediate deduction.
 - Once this ratio was determined, it was applied to the total expenditures eligible for immediate deduction to arrive at the amount of immediate deduction assigned to those programs.

⁴⁸⁷ Decision 3218-D01-2015: ATCO Electric Ltd., 2013 PBR Capital Tracker Refiling and True-up and 2014-2015 PBR Capital Tracker Forecast, Proceeding 3218, Application 1610569-1, March 15, 2015.

⁴⁸⁸ Decision 3218-D01-2015, paragraph 478 and excerpt from Proceeding 3218, Transcript, Volume 7, pages 1292-1293.

⁴⁸⁹ Exhibit 80.01, ATCO Gas response to undertaking re CCA allocation review, page 1.

- The amount of the immediate deduction assigned to a given program was then removed from capital expenditures for that program to arrive at UCC pool additions.
- CCA for programs undertaken since 2001
 - The next step was to insert those CCA pool additions into the applicable UCC continuity schedule by CCA class. For the capital tracker programs, this involved inserting CCA pool additions into Class 1 (four per cent for additions from 2001 through 2006 and into Class 51 for additions from 2007 through 2015).
 - This step was performed for the 2012 GRA approved CCA, the 2013 actual CCA, the 2014 forecast CCA and the 2015 forecast CCA.
- The next step was to remove these calculated CCA amounts from the total CCA deduction by Class to arrive at the residual CCA deduction to be allocated. This was done for each of 2012 GRA approved CCA, the 2013 actual CCA, the 2014 forecast CCA and the 2015 forecast CCA.
- The residual amount was then allocated to the remaining capital programs based on the weighting of depreciation expense by program.

599. As a result of applying the alternative capital cost allowance allocation methodology, ATCO Gas calculated the following changes to the K factor associated with each of its capital tracker projects and programs when compared to the K factor that would result from using the original methodology:

Table 18. Summary of changes resulting from the alternative CCA allocation to capital programs⁴⁹⁰

	2013 actual		2014 forecast		2015 forecast	
	North	South	North	South	North	South
Projects and programs undertaken since 2001						
Steel Mains Replacements	(227)	(131)	(278)	(130)	(339)	(119)
Plastic Mains Replacement	(56)	(170)	(161)	(292)	(279)	(452)
Transmission Driven Capital	23	-	(4)	24	(109)	(100)
Meter Relocation Replacement Program	64	63	85	92	75	125
Line Heater Reliability Program	-	-	(35)	-	(60)	-
Subtotal	(197)	(239)	(394)	(305)	(713)	(546)
Projects and programs initiated prior to 2001						
Cathodic Protection					9	5
Regulating Metering Station Improvements	38		48		62	
Rural Main Replacements and Relocations				130		29
New Urban Service Lines		50		98		202
Service Line Replacements and Improvements	25	11	33	22	48	46
Urban Feeder Mains	174		192		94	
New Regulating Meter Stations			9		13	
Urban Main Extension			263		222	
Urban Main Improvements	174		45		63	
Urban Main Relocations	25		32		45	12
Transportation Equipment						
Meter Set Improvements	(1)		(2)		(2)	
Rural Main Extensions and Services			215		121	
Subtotal	435	61	835	251	676	294
Total K factors	237	(177)	441	(55)	(37)	(253)

600. ATCO Gas considered that the alternative method for allocating capital cost allowances would likely produce a more accurate result in the accounting test. In argument, ATCO Gas stated:

ATCO Gas agrees that the alternative method submitted does provide a greater degree of precision in the determination of CCA by capital program. If the Commission determines that this alternative methodology is preferred to the methodology filed in the application, ATCO Gas will adjust the K Factor calculation accordingly in the compliance filing to this application.⁴⁹¹

Commission findings

601. In reviewing ATCO Gas's income tax calculations, which were provided as a single hard-coded number for each capital project or program in the accounting test spreadsheet in ATCO Gas's application, the Commission considers that the level of disclosure initially provided by ATCO Gas was not helpful to the Commission and interveners in understanding the mechanics of ATCO Gas's income tax calculations. There were several assumptions and allocations required as part of the income tax calculations, and the Commission considers that it is necessary for the company to disclose its assumptions and allocations in order for the Commission and interested parties to be able to assess whether those assumptions and allocations are reasonable.

⁴⁹⁰ Exhibit 80.02, ATCO Gas response to undertaking re CCA allocation review – Excel format, Summary of Change worksheet.

⁴⁹¹ Exhibit 90.01, ATCO Gas argument, paragraph 49.

Accordingly, in future capital tracker applications, ATCO Gas is directed to provide a breakdown of its capital tracker income tax calculations into their component parts: return, interest, depreciation, capital cost allowance, indirect capital costs, removal costs and capitalized pension costs. In addition, in future capital tracker applications, ATCO Gas is directed to provide supporting calculations for any income tax components that were assigned to capital projects or programs using an allocation methodology, and provide an explanation of how the total amounts to be allocated were calculated.

602. Subject to the above direction with respect to the breakdown of income tax calculations, the Commission generally accepts ATCO Gas's approach of isolating the income tax included in the capital tracker accounting test to those income tax items that are directly attributable to capital additions included as part of a capital tracker. The Commission is aware that this may result in the company collecting more income tax-related revenue requirement through the capital tracker mechanism than the company actually paid to the Canada Revenue Agency. However, this situation would arise as a result of deductions and additions for tax purposes that are not related to capital tracker additions.

603. The Commission does not consider that the CCA provided sufficient evidence that each of the additional income tax deductions that it proposed to be included in the capital tracker calculations are actually directly attributable to the capital tracker projects and programs. The CCA did not demonstrate that any additional income tax deductions actually vary depending on the level of capital additions made by the company, and ATCO Gas was able to explain why they do not. The CCA proposed a deferral account to be put in place for the income tax included in capital tracker calculations while tax issues are resolved between parties. The Commission agrees with ATCO Gas that the CCA was unclear on how the deferral account for capital tracker income tax would work. Accordingly, the Commission will not require ATCO Gas to include any additional income tax deductions, nor will the Commission require the creation of an additional income tax-related deferral account.

604. With respect to the capital cost allowance component of income tax included in the capital tracker calculations, the Commission considers that the alternative method for allocating capital cost allowance deductions to projects or programs that was provided in the undertaking response in Exhibit 80 is more accurate than the method originally used by ATCO Gas in its application. However, the Commission also considers that additional refinements may improve the alternative methodology.

605. For ATCO Gas's set of projects that have been undertaken only since 2001, which used the more accurate method of allocating capital cost allowance, most of the categories ended up with a lower K factor. The Commission considers that this was likely a result of the timing of expenditures, and the effects of the declining balance method of depreciation for income tax purposes on groups of assets that are relatively new. In particular, the SMR Program had an expenditure pattern that was generally less than \$10 million per year in the north and \$2 million per year in the south prior to 2011, and then generally experienced a rapid escalation to more than double that level from 2011 and onward. This category saw the largest difference between the original method of allocating capital cost allowances and the revised method, demonstrating the effect of greater precision in allocating capital cost allowances.

606. In its alternative allocation methodology for capital cost allowances, ATCO Gas continued to allocate the capital cost allowances to projects and programs that were initiated

prior to 2001 based on depreciation, and for each and every one of these projects, the K factor increased in ATCO Gas's alternative method when compared to its original method. Some of these projects and programs, however, relate to asset categories that experienced a rapid increase in capital additions in recent years; for example, urban main relocations in the north, which had capital additions of \$3.6 million in 2010 and are more than 80 per cent higher in the 2015 forecast at \$6.7 million.⁴⁹² Projects that were initiated prior to 2001, but which have experienced recent rapid increases in capital additions, might also demonstrate a similar reduction to the K factor as the SMR category, if a more refined capital cost allowances allocation methodology were used.

607. The Commission directs ATCO Gas, in its compliance filing to this decision, to adopt the alternative method for allocating capital cost allowances. ATCO Gas is also directed to provide a more refined version of the alternative method to capture more effectively how the actual capital cost allowance deductions would be applied to all capital tracker projects and programs and, in particular, for those projects and programs that were initiated prior to 2001, for which ATCO Gas continued to allocate capital cost allowances according to the amount of depreciation expense for each project or program. To do this, ATCO Gas should develop an estimate of the opening undepreciated capital costs (UCC) for tax purposes in 2001 for each project or program, develop an estimate for the annual UCC additions for each year in the same manner as the estimates for the projects undertaken since 2001,⁴⁹³ and develop a separate capital cost allowance calculation for each capital tracker project or program in the same manner as the calculations for the projects undertaken since 2001.⁴⁹⁴ ATCO Gas should compare the results of the refined version of the alternative method and the alternative method provided in the response to the undertaking and discuss the relevance of any variances.

7.5 Putting a limit on the K factor in the true-up process

608. Calgary proposed that, in the 2013 true-up process, ATCO Gas should not be allowed to collect its proposed K factor because the company already earned its approved return on equity without needing the additional revenues provided by the K factor. Calgary summarized this point stating:

Given the data available, the Commission should not allow ATCO Gas to increase its rates for 2013, for a capital tracker, when ATCO Gas has not demonstrated that it was unable to earn a fair return in 2013.⁴⁹⁵

609. Calgary, through its evidence, argument and reply argument, provided a great deal of analysis to “assess whether the [capital tracker] true-up results provide outcomes expected for PBR in Alberta” and “whether ATCO's applied for True-Up embodies any unintended consequences of PBR in Alberta.”⁴⁹⁶ To summarize Calgary's concerns, the following sections were presented in Calgary's argument (although Calgary commented on grouping, the grouping

⁴⁹² Values taken from Exhibit 6, Schedule A1.1 and Exhibit 27.02, Schedule A5.

⁴⁹³ Exhibit 80.02, UCC Additions worksheet.

⁴⁹⁴ Exhibit 80.02, CCA 2012 GRA worksheet and CCA Actual and Forecast worksheet.

⁴⁹⁵ Exhibit 41.01, Calgary evidence, A63.

⁴⁹⁶ Exhibit 88.01, Calgary argument, paragraph 11.

section has not been included in this list because grouping has been directly addressed elsewhere in this decision).⁴⁹⁷

- PBR Principles
- No Need Demonstrated in 2013 True-up
- Legislative Mandate
- Unintended Consequences of ATCO True-up
- Cost Pass-through Treatment in True-up
- Transition to True-up Cannot be Mechanistic
- Incentives - Adverse Incentives and Weakening of PBR Incentives
- Enhanced Return With No incremental Risk or Efficiencies
- Rate Increases Instead of Expected PBR Rate Decrease
- Migration to Hybrid PBR
- Growth of Capital Trackers
- PBR Benefits are Disproportionate, Worse under True-up and Not Available at Rebasings
- Calgary Recommendation - ATCO Gas 2013 Capital Tracker True-up

610. Most of the material submitted by Calgary was targeted at showing that it would be unfair to customers to allow ATCO Gas to achieve an ROE that is in excess of the approved ROE if a large portion of the excess earnings resulted from the inclusion of capital trackers on a true-up basis. Calgary considered that the excess earnings that ATCO Gas would achieve in 2013 beyond the approved ROE that resulted from capital trackers is an unintended consequence of PBR.⁴⁹⁸

611. Calgary differentiated the treatment for the true-up of capital trackers, which it proposed would be conditional and subject to change based on the ROE actually earned by the company, from the treatment of capital trackers on a forecast basis. Calgary stated that the project net cost approach used to determine capital trackers may be necessary on a forecast basis, but that may not be the case when it comes time to true up the capital trackers to actual results. Calgary stated:

While this [project net cost capital tracker] approach may assist in determining what projects may need to be included in rates on a forecast basis, based on the ATCO Gas Application, it appears this test does not account for the objectives and intentions of PBR when considered for a True-Up.⁴⁹⁹

612. In response to an information request from the Commission, Calgary confirmed that its proposed approach with respect to the true-up of capital trackers would result in additional and overriding considerations being added to the capital trackers tests already established by the Commission in Decision 2012-237 and Decision 2013-435.⁵⁰⁰

613. To support why it thought that the true-up aspect of the capital tracker mechanism may work differently from the forecast aspect that the Commission had approved in Decision 2013-435, Calgary considered that the true-up component of the capital tracker mechanism had not been definitively determined. Calgary stated:

⁴⁹⁷ Exhibit 88.01, Calgary argument, paragraph 13.

⁴⁹⁸ Exhibit 88.01, Calgary argument, paragraph 56.

⁴⁹⁹ Exhibit 44.01, Calgary evidence, A62.

⁵⁰⁰ Exhibit 54.02, AUC-CAL-2(b).

In Calgary's respectful submission, the Commission did not articulate [or "state"] in the PBR Decision or in Decision 2012-435 that a transition to a True-Up amount of a capital tracker and K Factor from forecast amounts would simply be a mechanical calculation, once the prudence test was met.⁵⁰¹

614. Calgary argued that because ATCO Gas would have been able to achieve its approved return on equity without the inclusions of a K factor in its rates, ATCO Gas would have sufficient funding from the I-X mechanism to earn a fair return. Calgary viewed that in this circumstance, there was no need for a K factor, and if a K factor were permitted after the company had already achieved its approved ROE, this would be a windfall gain to the company. Calgary stated:

Accordingly, if the Commission views that the intent of Capital Trackers, under the envelope of PBR, is intended to reward ATCO with 200 basis points enhancement to its ROE for cost of service pass through (little or no risk and no efficiency), then Calgary respectfully submits that its decision on the ATCO application should clearly so state.⁵⁰²

615. In response to the evidence and arguments provided by Calgary, ATCO Gas argued that Calgary's evidence was out of scope because the Commission had previously ruled on the issues that Calgary was raising. ATCO Gas considered that many of the issues raised by Calgary, and Calgary's proposal to introduce additional and overriding considerations on the capital tracker true-up process beyond those approved in Decision 2012-237 and 2013-435, were an attempt to re-litigate those proceedings.⁵⁰³ ATCO Gas stated:

Calgary's evidence and its entire Argument are focused on assertions as to how the Commission "got it wrong" in Decisions 2012-237 and 2013-435. Although Calgary frames the points in its Argument as "unintended consequences" of PBR and Decision 2013-435, in fact, all of the points raised in Calgary's Argument are matters that the Commission presumably intended since it has already considered and ruled upon them in its prior Decisions.⁵⁰⁴

616. ATCO Gas submitted that Calgary had not provided evidence to show that ATCO Gas was not complying with the Commission directions related to capital trackers. ATCO Gas stated:

None of the eleven conclusions [made by Calgary] state that ATCO Gas has not undertaken the accounting and materiality tests correctly. Nor do they state that ATCO Gas has not provided sufficient information for project assessment, nor is there any disagreement with the need or scope included in ATCO Gas' project assessments.⁵⁰⁵

617. Although the context for the recommendation was somewhat different than what Calgary proposed, the CCA also proposed a limit on the amount of the 2013 capital tracker true-up K factor. The CCA wanted to limit the amount of the 2013 K factor to the amount that ATCO Gas applied for in Proceeding 2131. The CCA stated:

⁵⁰¹ Exhibit 88.01, Calgary argument, paragraph 45.

⁵⁰² Exhibit 88.01, Calgary argument, paragraph 35.

⁵⁰³ Exhibit 94.01, ATCO Gas reply argument, paragraph 66.

⁵⁰⁴ Exhibit 94.01, ATCO Gas reply argument, paragraph 41.

⁵⁰⁵ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 10.

The CCA submits that the 2013 K factor should be limited to a maximum of the original 2013 amount of \$9.5 million. The CCA considers that the AUC should not approve an amount greater than applied for by a utility in one application and it also should not approve an amount greater than that originally applied for over two separate but similar applications. The CCA notes that there is 58.90% increase in the K Factor amount as well as a 1.80% to 2.40% reduction in overall capital expenditures. The CCA submits this is clearly inappropriate harm to customers and must not be permitted.⁵⁰⁶

618. ATCO Gas disagreed with the CCA's proposal. ATCO Gas considered that the CCA was not making a relevant comparison because of the differences between the aggregate investment shortfall approach used by ATCO Gas in Proceeding 2131 and the project net cost approach used in the current proceeding.⁵⁰⁷ In response to the CCA's proposal, ATCO Gas stated:

In Section 4 of its Argument, the CCA submits that the 2013 K Factor should be limited to a maximum of the K Factor sought in Proceeding ID 2131 for 2013, for no reason other than the fact that it is different. It is clear that the CCA views that the only reason for the difference in K Factor from ID 2131 is due to grouping and negative accounting test results. This assumption is incorrect and the recommendation to cap the K Factor at the \$9.5 million sought in ID 2131 is completely without merit and must be disregarded. As noted above, this constitutes a de facto R&V of Decision 2013-435.⁵⁰⁸

Commission findings

619. While the Commission will address some of Calgary's concerns in more detail, the Commission generally finds that many of the issues raised by Calgary to support its position that ATCO Gas should not be eligible to collect the 2013 K factor on a true-up basis are outside the scope of what should be addressed in an annual capital tracker application. The Commission developed the framework for capital trackers in Decision 2012-237 and Decision 2013-435, and the purpose of the annual capital tracker applications, such as the application in the current proceeding, is to give effect to the capital tracker framework approved by the Commission. The capital tracker mechanism is not under reconsideration in this proceeding. The scope of the current proceeding does not include an assessment of the PBR plan in general or whether the capital tracker mechanism is producing desirable or undesirable outcomes as a component of a PBR plan.

620. The Commission was aware of the diminished incentives that result from capital trackers, and the need to maintain efficiency incentives through the structure of capital trackers, when it originally approved the mechanism in Decision 2012-237. The Commission stated:

The Commission shares the concerns raised by NERA and interveners that a capital factor must be carefully designed in order to maintain the efficiency incentives of PBR, and also to avoid double-counting. At issue are the types and levels of capital expenditures that can reasonably be expected to be recovered through the I-X mechanism. The Commission finds that a mechanism that permits the recovery of specific types of capital outside of the I-X mechanism should be included in a PBR plan. In the sections of this decision that follow, the Commission addresses these issues by

⁵⁰⁶ Exhibit 89.01, CCA argument, paragraph 13.

⁵⁰⁷ Exhibit 94.01, ATCO Gas reply argument, paragraph 90.

⁵⁰⁸ Exhibit 94.01, ATCO Gas reply argument, paragraph 89.

adopting a capital factor that, to the greatest extent possible, seeks to maintain the incentive properties of PBR and avoids double-counting.⁵⁰⁹

621. An analysis that assesses the effectiveness of the PBR plan as a result of the inclusion of the capital tracker mechanism, and the structure of that mechanism, in isolation, fails to consider all aspects of the PBR plan. Analyses such as the level of rate increases in comparison to what they may otherwise be under cost of service, the level of the overall earnings of the company and whether the plan has migrated to a hybrid PBR plan, are potentially relevant only when reviewing the PBR plan as a whole, and that is not the purpose of an annual capital tracker application, regardless of whether that annual capital tracker application is dealing with forecast capital projects and programs or true-up costs to reflect actual results.

622. In the view of the Commission, to claim, as Calgary has done, that capital trackers are only necessary in circumstances where a company has failed to achieve its approved ROE, ignores the incentives for efficiency that PBR is intended to produce. The premise for such an argument, as stated by Calgary, is that there is “little or no risk and no efficiency”⁵¹⁰ associated with the activities that caused the ROE to exceed the approved level. The calculation of the ROE for the company involves the entire operations of the company, including operations and maintenance expenses, general and administrative expenses, capital tracker capital expenses and non-capital tracker capital expenses. Although there are some components of a PBR plan, such as capital trackers, where the incentives for the company to operate efficiently have been muted, there are many other components, such as operations and maintenance expenses that are not subject to deferral accounts, where the incentives of PBR are in full force. In making an assessment of the overall PBR plans for the companies in Decision 2012-237, and whether the plans would allow the companies a reasonable opportunity to recover their prudently incurred costs including a fair rate of return, the Commission determined that it is the combination of all of the elements of the plan that must be considered. The Commission stated:

In making its determinations, the Commission has considered the effect of the combination of the I-X mechanism with the treatment of some capital-related costs outside of the I-X mechanism, the Z factor adjustments and the provision for deferral accounts and flow-throughs to protect the companies from significant unforeseen events that are outside their control. In addition, the Commission has considered the statements of a number of witnesses regarding the incentives to over-forecast capital expenditures, the observation of Dr. Lowry that the companies have considerable flexibility in the timing of capital replacements and the views of Dr. Weisman that with the incentives created by the plan, the companies will discover new ways to conduct their businesses. Having considered the statements of the parties and witnesses, and the full record of the proceeding, the Commission is satisfied that the PBR plans approved in this decision will provide each of the companies with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return over the five-year term of the plan. With regard to earning a fair rate of return, there was general agreement among the experts and the parties that the opportunity to earn a fair rate of return should be considered over the term of the PBR plan and not on a year-by-year basis.⁵¹¹ [footnotes removed]

⁵⁰⁹ Decision 2012-237, paragraph 550.

⁵¹⁰ Exhibit 88.01, Calgary argument, paragraph 35.

⁵¹¹ Decision 2012-237, paragraph 35.

623. In order for the Commission to accept Calgary's proposal that ATCO Gas not be permitted to collect a K factor if it has already achieved its approved ROE, without requiring additional revenues through the K factor, would require evidence that none of the ROE beyond the approved level was realized because the company has become more efficient on its non-capital tracker activities. Otherwise, Calgary's proposal would result in a PBR plan that claws-back gains that the company achieved because it had become more efficient. If a company knows that any additional returns that it can provide to its shareholders by achieving efficiency gains may be clawed-back, the incentive for the company to seek such efficiency gains is diminished.

624. While Calgary stated that ATCO Gas experienced increased returns in 2013 without incurring any additional risk or without achieving efficiencies,⁵¹² the Commission agrees with ATCO Gas⁵¹³ that Calgary has not provided the type of evidence in this proceeding that would clearly demonstrate that the excess ROE earned by the company is not a result of efficiency gains.⁵¹⁴ The Commission also considers that it would have been neither necessary nor correct for Calgary to have provided this type of evidence in the context of a capital tracker proceeding because that would involve evidence regarding the efficiency of non-capital tracker activities, which would have been out-of-scope for the current proceeding.

625. Once the Commission has made a determination on a PBR plan and the elements established in that plan, it is necessary for those elements to be consistently applied for the duration of the PBR term. If a company has uncertainty about the rate treatment it will receive during the PBR term, it is unlikely to work as aggressively to seek efficiencies. The Commission has stated in both Decision 2012-237⁵¹⁵ and Decision 2013-435⁵¹⁶ that capital trackers will be subject to a true-up to actual, and in neither of those decisions did the Commission put conditions on the eligibility for the company to collect capital trackers on a true-up based on the financial performance of the company. The Commission agrees with ATCO Gas's statement that "nowhere in Decision 2013-435 or any other decision does the Commission indicate that the actual ROE of ATCO Gas should govern whether Capital Trackers should be available or how they should be applied."⁵¹⁷

626. Throughout the process of implementing PBR, the Commission has consistently been aware of concerns about the level of earnings that the companies under PBR are achieving, such as the concerns that are being raised by Calgary with respect to ATCO Gas's 2013 ROE in the current proceeding. In Decision 2012-237, the Commission acknowledged that as time progresses there may be problems that arise with a PBR plan that cannot be resolved without reopening and reviewing the plan.⁵¹⁸ For this reason, the Commission approved a reopener mechanism that is tied to the ROE of the company, where the PBR plan will be reviewed if the

⁵¹² Exhibit 88.01, Calgary argument, paragraph 109.

⁵¹³ Exhibit 94.01, ATCO Gas reply argument, paragraph 67.

⁵¹⁴ The Commission has considered Calgary's evidence in Exhibit 44.01, Calgary evidence, A50, where Calgary made assertions about ATCO Gas's increases in operations and maintenance expenses in 2013 when compared to 2012 as a demonstration that ATCO Gas has not become more efficient in 2013, but does not consider this analysis to be fulsome enough to demonstrate the statement that Calgary has asserted.

⁵¹⁵ Decision 2012-237, paragraph 615.

⁵¹⁶ Decision 2013-435, paragraph 48.

⁵¹⁷ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 27.

⁵¹⁸ Decision 2012-237, paragraph 758.

ROE of the company is 500 basis points above or below the approved ROE in a single year or 300 basis points above or below the approved ROE for two consecutive years.⁵¹⁹

627. It is the reopener mechanism that will ensure that the a company is not earning an unreasonable return as a result of the structure of the PBR plan and the additional rate increase mechanisms included in the plan, such as capital trackers. In the event that a reopener is triggered because the ROE of the company is significantly higher than the approved ROE, the Commission will assess the causes of the excess ROE and make an assessment as to whether the reopener is warranted.⁵²⁰

628. It would be in a reopener proceeding that is triggered by the company's ROE, if one happens to be triggered, where Calgary would have an opportunity to provide evidence that the capital tracker mechanism is a significant contributor to the excess earnings of the company, and make proposals to modify the capital tracker mechanism if it considers that to be necessary. Accordingly, the submissions of Calgary that ATCO Gas should not be allowed to collect its proposed K factor because the company already earned its approved return on equity, without needing the additional revenues provided by the K factor, are dismissed.

629. With respect to the CCA's recommendation to limit the 2013 K factor to a maximum of the original 2013 amount of \$9.5 million applied for in ATCO Gas's previous capital tracker application, the Commission considers that the purpose of the true-up is to reflect the actual costs of approved capital trackers. Further, the original 2013 application was brought forward under a different approach, the aggregate investment shortfall approach to identifying capital that was not funded under the I-X mechanism, which was rejected by the Commission in favor of the project net cost approach. To the extent the actual costs in 2013 produced a different result from what the company originally applied for, and the company is complying with the requirements of the capital tracker mechanism based on a project net cost approach, and the company is able to demonstrate the prudence of the actual capital additions in 2013, the amount that the company originally applied for is not a barrier to recovery of the approved actual costs. The Commission will assess the merits of the ATCO Gas application and, in other sections of this decision, may make modifications that change the K factor that is approved from the amount that ATCO Gas applied for, but those changes will not be made for the purpose of achieving a specific outcome on the amount of the K factor. The amount of the K factor should be a result of applying the parameters for the capital tracker mechanism established in Decision 2012-237 and Decision 2013-435. Each parameter of the capital tracker mechanism should be assessed on its own and the amount of K factor should be the resulting outcome.

7.6 Commission's conclusions on Criterion 1

630. In Section 6 of this decision, based on the project assessment under Criterion 1, the Commission approved the need for each project or program that ATCO Gas proposed for capital tracker treatment either on an actual basis (for 2013) or on a forecast basis (for 2014 or 2015). The Commission also confirmed the prudence of actual capital additions for the true up of each of the capital tracker projects or programs in 2013, with the exception of the SMR program, for which the Commission altered the time that capital additions made in 2011 related to a proactive aspect of the program will be added to rate base. In addition, the Commission determined that

⁵¹⁹ Decision 2012-237, paragraphs 737-739.

⁵²⁰ Decision 2012-237, paragraph 758.

ATCO Gas's forecast capital expenditures for the proposed 2014-2015 capital tracker projects and programs are reasonable.

631. In Section 7.1 of this decision, the Commission found the form of ATCO Gas's accounting test model to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. However, in Section 7.3, the Commission directed some changes with respect to ATCO Gas's accounting test assumptions related to the WACC assumptions it used as a result of directions in Decision 3434-D01-2015. In Section 7.4, the Commission directed some changes with respect to the income tax calculations and the allocation of capital cost allowances. In section 9 the Commission directed ATCO Gas to update the 2015 I-X value approved in the 2015 annual rate adjustment proceeding. In Section 5.1, the Commission directed ATCO Gas to add the bare steel mains to its SMR project grouping. In Section 6.4, the Commission directed ATCO Gas to recalculate its total pool of overheads in the compliance filing to this decision. In Section 6.5, the Commission directed ATCO Gas, in its compliance filing, to provide clarification, and possibly corrections, with respect to the capital additions for certain projects and programs that had different capital addition values shown for the same project or program in the same year on different schedules within ATCO Gas's accounting test schedules.

632. Accordingly, although the Commission finds the general form of ATCO Gas's accounting test model to be reasonable and consistent with the methodology approved in Decision 2013-435, the Commission cannot make a determination in this decision as to whether any of ATCO Gas's projects or programs proposed for capital tracker treatment in 2013-2015 satisfies the accounting test requirement of Criterion 1 and accordingly, whether any of ATCO Gas's projects or programs satisfy Criterion 1 in its entirety. The Commission directs ATCO Gas, in its compliance filing to this decision, to revise its accounting test for 2013, as well as for 2014-2015, based on approved actual capital additions or approved forecasts, model assumptions and other directions as set out in this decision.

8 Criterion 2 – ordinarily the project must be for replacement of existing assets or undertaking the project must be required by an external party

633. With respect to Criterion 2, the Commission clarified in Decision 2013-435 that, in addition to asset replacement projects and projects required by an external party, in principle, a growth-related project will satisfy the requirements of Criterion 2 where it can be demonstrated that customer contributions, together with incremental revenues allocated to the project on some reasonable basis, when added to the revenue provided under the I-X mechanism, are insufficient to offset the revenue requirement associated with the project in a PBR year.⁵²¹ Certain projects for capital tracker treatment that do not fall into any of the growth-related, asset replacement or external party related categories might also satisfy Criterion 2 in certain circumstances as discussed in Section 3.2.4 of Decision 2013-435.⁵²²

634. Table 19 below provides a summary of the ATCO Gas capital trackers applied for in the 2014-2015 capital tracker and 2013 true-up application and the applicable Criterion 2 category for each proposed capital tracker as submitted by ATCO Gas.

⁵²¹ Decision 2013-435, paragraph 309.

⁵²² Decision 2013-435, paragraph 314.

Table 19. Applied-for 2013-2015 capital tracker projects or programs and Criterion 2 requirements

Project name	Criterion 2 project type	Application paragraph
Steel Mains Replacement	Asset replacement or refurbishment	146
Plastic Mains Replacement	Asset replacement or refurbishment	168
Transmission Driven Capital	Third-party driven	190
Meter Relocation and Replacement	Asset replacement or refurbishment	218
Line Heater Reliability	Asset replacement or refurbishment	243
Cathodic Protection	Asset replacement or refurbishment	265
Regulating Meter Station Improvements	Asset replacement or refurbishment	286
Rural Main Replacement and Relocations	Third-party driven / asset replacement or refurbishment / growth	308 and 309
New Urban Service Lines	Growth	331
Service Line Replacements and Improvements	Asset replacement or refurbishment / third-party driven	351
Urban Feeder Mains	Growth	372
New Regulating Meter Stations	Growth	393
Urban Main Extensions	Growth	414
Urban Main Improvements	Growth	433
Urban Main Relocations	Third-party driven	456
Transportation Equipment	Asset replacement or refurbishment	476
Meter Set Improvements	Third-party driven / asset replacement or refurbishment	501

635. The Commission notes that interveners did not provide evidence or argument on Criterion 2.

Commission findings

636. In Section 5 of this decision, the Commission generally approved the basis for the grouping of the ATCO Gas projects, with one modification to the grouping of the historical costs associated with the bare mains replacement program with the SMR program, that the Commission considers does not alter the underlying nature of any groupings, for the purpose of assessing each grouping against Criterion 2.

637. In Decision 2013-435, the Commission determined that certain of the ATCO Gas programs satisfied the requirements of Criterion 2:

696. The Commission agrees that the UMR, RMR and MRRP programs are required for the replacement of assets and therefore meet the Commission's second capital tracker criterion. Line heater replacements are found to meet the Commission's Criterion 2 on the basis of being required for replacement and refurbishment of existing assets.

697. In Section 3.2.3, the Commission disagreed with the position of Calgary that in order to be considered externally driven, a project must be for a party that is at arms-length to the utility. Additionally, the Commission notes that the transmission portion of

the projects requires the approval of the Commission or the National Energy Board. The Commission finds that ATCO Gas' transmission driven and third-party replacement capital projects are required by an external party and therefore meet the Commission's second capital tracker criterion.

638. As noted in Section 3 above, the Commission will not reassess a finding that a particular project or program satisfies the requirements of Criterion 2 unless the driver for the project or program has changed. There is no evidence on the record of this proceeding that the drivers for the ATCO Gas programs, previously approved by the Commission, have changed. Accordingly, there is no need to undertake a reassessment against the Criterion 2 requirements. The Commission has reviewed in detail, the balance of the ATCO Gas projects and programs proposed for capital tracker treatment in the 2013-2015 period in Section 6 and finds that they fall into one of the following Criterion 2 categories approved for capital tracker treatment in Decision 2013-435: asset replacement or refurbishment; required by an external party; or growth related. Accordingly, the Commission finds that the ATCO Gas 2013, 2014 and 2015 projects or programs satisfy the requirements of Criterion 2.

639. In subsequent capital tracker true-up applications, the Commission directs ATCO Gas to address whether the driver for any of the previously approved forecast projects or programs has changed, so as to warrant a reassessment under Criterion 2. In the event that the driver of the project or program has changed since the forecast project or program was approved, ATCO Gas is directed to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2.

9 Criterion 3 – the project must have a material effect on the company's finances

640. Section 7 of this decision addressed ATCO Gas's accounting test, which determines whether all of the forecast or actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy Criterion 1. This is established by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the project or program proposed for capital tracker treatment.

641. In accordance with the Commission determinations in Decision 2013-435, the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test, is then assessed against the two-tiered materiality test under Criterion 3. The first tier of the materiality threshold, a "four basis point threshold," is applied at a project level (grouped in the manner approved by the Commission). The second tier of the materiality threshold, a "40 basis point threshold," is applied to the aggregate revenue requirement proposed to be recovered by way of all capital trackers.

642. In Decision 2013-435, the Commission calculated the four basis point threshold and the 40 basis point threshold based on a respective dollar value of ATCO Gas's ROE in 2012. The Commission indicated that in subsequent PBR years, the four basis point threshold and the 40

basis point threshold are to be calculated by escalating the dollar value of each respective amount in 2012 by I-X.⁵²³

643. For 2013, the Commission approved a four basis point threshold of \$264,000 and a 40 basis point threshold of \$2.635 million for ATCO Gas.⁵²⁴ ATCO Gas considered that because its rates are calculated separately for the north and south, separate materiality thresholds should be calculated for each of the north and south. ATCO Gas used the approved materiality threshold values from Decision 2013-435, which were applied to its north and south required capital investment to develop a north and south materiality threshold, in the 2014-2015 capital tracker and 2013 true-up application to demonstrate that the applied-for 2013 capital tracker projects satisfy the requirements of Criterion 3.⁵²⁵ On this basis, ATCO Gas recalculated the 2013 four basis point threshold for the north to be \$145,000 and for the south to be \$119,000, and the 40 basis point threshold for the north to be \$1.448 million and for the south to be \$1.187 million.

644. For the 2014 and 2015 capital tracker forecasts, ATCO Gas calculated the 2014 and 2015 materiality thresholds, following the methodology set out in Decision 2013-435, and then applied to its north and south required capital investment. The 2014 four basis point thresholds of \$147,000 for the north and \$121,000 for the south were calculated by escalating the 2012 amounts by the approved 2013 and approved 2014 I-X index values.⁵²⁶ Using the same methodology, ATCO Gas calculated the 40 basis point threshold to be \$1.471 million for the north and \$1.206 million for the south for 2014.

645. As discussed in Section 7.2, at the time that the 2014-2015 capital tracker and 2013 true-up application was filed, ATCO Gas did not have the approved I factor for 2015. As such, ATCO Gas used the 2014 I factor of 2.70 per cent as a placeholder for 2015.⁵²⁷ Accordingly, ATCO Gas's 2015 four basis point threshold of \$149,000 for the north and \$123,000 for the south and 40 basis point threshold of \$1.494 million for the north and \$1.225 million for the south were based on this I factor estimate. ATCO Gas assessed each of its projects or programs proposed for capital tracker treatment in 2014 or 2015 against the respective two-tiered thresholds for those years and determined that each met the Criterion 3 requirements.

646. The UCA proposed a change to the method for applying the materiality threshold. The UCA recommended that the materiality threshold should be applied to the annual incremental capital tracker revenue.⁵²⁸ This would mean, for example, that when the 2015 capital tracker funding shortfalls are calculated for each project or program, the 2015 shortfall amounts would be compared to the 2014 shortfall amounts for each project or program, and it would be the difference between these two values that would be compared to the materiality threshold. ATCO Gas considered that it had applied the accounting test and the materiality requirements approved by the Commission, and that "the compounding effect of annual capital additions is intrinsic to the accounting test; that is how the capital funding shortfalls of each program category for each year are to be determined."⁵²⁹

⁵²³ Decision 2013-435, paragraphs 378 and 384.

⁵²⁴ Decision 2013-435, paragraph 385 and page 88, Table 8.

⁵²⁵ Exhibit 4, ATCO Gas application, paragraph 42 and Table 2.

⁵²⁶ Decision 2014-460, paragraph 37.

⁵²⁷ Exhibit 4, ATCO Gas application, Table 2.

⁵²⁸ Exhibit 38.02, UCA evidence, A13.

⁵²⁹ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 92.

Commission findings

647. In the 2013 capital tracker true-up application, ATCO Gas used the materiality threshold values approved in Decision 2013-435, and then applied it to the north and the south required capital investment. The Commission accepts ATCO Gas's approach of applying the materiality thresholds between the north and south because ATCO gas is required by the Commission to maintain a separate rate base for each of its north and south systems. For 2014, ATCO Gas calculated the first and second tier materiality thresholds by escalating the respective 2012 values by the approved 2013 and 2014 I-X index values. The Commission has reviewed ATCO Gas's calculations and finds the resulting 2014 four basis point thresholds of \$147,000 for the north and \$121,000 for the south and the 40 basis point threshold of \$1.471 million for the north and \$1.206 million for the south to be correct.

648. For 2015, ATCO Gas calculated the first and second tier materiality thresholds by escalating the respective 2012 values by the approved 2013 and 2014 I-X indexes, and then used the approved 2014 I-X index value as a placeholder for 2015.

649. The Commission observes that, since the filing of ATCO Gas's 2014-2015 capital tracker and 2013 true-up application, the 2015 I-X index has been approved in Decision 2014-363.⁵³⁰ To minimize future true-ups, the Commission directs ATCO Gas, in its compliance filing to this decision, to use the 2015 I-X index value of 1.49 per cent approved in Decision 2014-363 to calculate the first and second tier materiality thresholds for each capital tracker and for all capital trackers applied for in the aggregate, in 2015.

650. The Commission does not accept the UCA's proposal to apply the materiality thresholds to only the year-over-year incremental amounts identified by the accounting test for each project or program. The purpose of the materiality threshold, as was described in the wording for Criterion 3 in Decision 2012-237, is that "the project must have a material effect on the company's finances."⁵³¹ In Decision 2013-435, the Commission clarified that the levels that are to be considered material are a four basis points impact on ROE for an individual project or program and a 40 basis points impact on ROE for aggregate amount of capital trackers. The Commission determined that these materiality thresholds "address circumstances where capital projects require material funding outside of the I-X mechanism."⁵³² The Commission considers that the accounting test identifies how much of the funding required for a capital project or program is not covered by the I-X mechanism. To the extent there is a positive result for a particular project or program in the accounting test, the company has a funding shortfall for that project or program. As each year passes, and there continues to be a positive accounting test for a particular project or program, the company continues to lack sufficient funding from the I-X mechanism to fund the project or program. To the extent that the positive accounting test remains positive each year for a project or program, but does not increase by more than the four basis points materiality threshold, does not mean that the company now has adequate funding for the project or program. The capital tracker accounting test uses the annual revenue requirements associated with projects and programs, therefore, having collected a capital tracker in the prior year for a project or program only provided additional funding for that particular year's annual revenue requirement. ATCO Gas stated "Mr. Bell's logic is flawed because the K factor, due to

⁵³⁰ Decision 2014-363: ATCO Gas 2015 Annual PBR Rate Adjustment Filing, Proceeding 3407, Application 1610837-1, December 19, 2014, paragraph 17.

⁵³¹ Decision 2012-237, paragraph 592.

⁵³² Decision 2013-435, paragraph 386.

the application of the PNC [project net cost] methodology, is itself an incremental funding requirement.”⁵³³ The Commission agrees with this statement from ATCO Gas. Each year the accounting test calculates the amount of incremental revenue requirement for that particular year, and a comparison to the incremental revenue requirement collected in the prior year is not relevant.

651. The Commission has reviewed ATCO Gas’s calculations, and is generally satisfied that ATCO Gas has interpreted the Criterion 3 test properly and has applied the test properly. However, as discussed earlier in this section, the two-tiered materiality test under Criterion 3 is applied to the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test. In Section 7.6, the Commission directed ATCO Gas, in its compliance filing to this decision, to revise its accounting test in accordance with the directions set out therein. Accordingly, because ATCO Gas’s accounting test for each of 2013, 2014 and 2015 needs to be revised, the Commission cannot determine in this decision whether any of ATCO Gas’s projects or programs proposed for capital tracker treatment in the periods from 2013 to 2015 satisfy the materiality test requirement of Criterion 3. In addition, as set out in Sections 6.6.1 of this decision, the Commission directed ATCO Gas, in its compliance filing to this decision, to modify the timing of when certain costs related to the SMR program are added to rate base in its K factor calculations. In Section 7.2 the Commission directed ATCO Gas to update the 2015 I-X value approved in the 2015 annual rate adjustment proceeding. In Section 5.1 the Commission directed ATCO Gas to add the bare steel mains to its SMR project grouping. In Section 6.4 the Commission directed ATCO Gas to recalculate its total pool of overheads in the compliance filing to this decision, and in Section 6.5, the Commission directed ATCO Gas, in its compliance filing, to provide clarification, and possibly corrections, with respect to the capital additions for certain projects and programs that had different capital addition values shown for the same project or program in the same year on different schedules within ATCO Gas’s accounting test schedules.

652. Given these findings, the Commission directs ATCO Gas, in its compliance filing to this decision, to reassess each of its projects and programs proposed for capital tracker treatment in 2013 to 2015, to determine if they satisfy the two-tiered materiality test requirement of Criterion 3. For this reassessment, ATCO Gas will use the approved 2013 and 2014 threshold amounts, as well as revised 2015 threshold amounts, as directed above.

10 Other matters

10.1 Rule 005 reporting

653. In an information response to the UCA, ATCO Gas indicated that upon the approval of a 2013 K factor amount, it would update its 2013 [Rule 005](#)⁵³⁴ filing to reflect the impact of the approved K factor.⁵³⁵ Currently, ATCO Gas’s 2013 Rule 005 filing is based on ATCO Gas’s 2013 interim rates, which consist of a 60 per cent K factor placeholder. In its reply argument, ATCO Gas stated that it is now “less certain”⁵³⁶ that it will file an updated 2013 Rule 005 filing

⁵³³ Exhibit 90.01, ATCO Gas argument, paragraph 37.

⁵³⁴ Rule 005: *Annual Reporting Requirements of Financial and Operational Results*.

⁵³⁵ Exhibit 36.02, UCA-ATCO GAS-1(e).

⁵³⁶ Exhibit 94.01, ATCO Gas reply argument, paragraph 143.

to reflect the 2013 capital tracker effect. ATCO Gas submitted that “at some point a utility’s reported ROE must be considered final and continual updating of reported ROE’s several years after the fact is neither efficient nor useful to the users of the information.”⁵³⁷

654. In argument, the CCA continued to support the need to update ATCO Gas’s 2013 Rule 005 filing to reflect the effect of the approved K factor. In addition, the CCA recommended that the updated Rule 005 filing should include a disclosure of capital that is funded under the I-X mechanism and capital that is funded by way of a capital tracker and K factor.⁵³⁸

655. In response to the CCA, ATCO Gas stated that the issue of disclosing the capital funded under I-X and by way of the K factor in Rule 005 reports is not within the scope of this proceeding.

Commission findings

656. The Commission finds that ATCO Gas is not required to update its 2013 Rule 005 filing to reflect the results of this decision. The Commission finds that the issue of ATCO Gas updating its 2013 Rule 005 filing is not within the scope of this proceeding. The Commission will not direct ATCO Gas to update and refile its 2013 Rule 005 filing.

657. The Commission finds that the CCA’s proposal to segregate the reporting of capital tracker and non-capital tracker additions in ATCO Gas’s financial reporting filed in accordance with Rule 005 and to restate the 2013 financial reporting once the final capital tracker decision is issued, is outside the scope of the present proceeding. There is an established process pursuant to which the Commission develops its rules, whereby it considers stakeholder feedback and enacts or modifies its proposed rules. The Commission considers that it is within that process that changes to Rule 005 should be considered.

10.2 Controls and accountability

658. ATCO Gas, in its application, explained its Capital Project Delivery model, which includes a set of standardized project management practices and processes used to deliver ATCO Gas’ capital projects “to ensure that the costs are prudently incurred.”⁵³⁹ ATCO Gas indicated that it applies principles of project management consistent with the Project Management Institute’s recommended methodologies in the Project Management Body of Knowledge (PMBOK) guide.⁵⁴⁰ Included in ATCO Gas’s project management practices are the following processes: project identification, project initiation, project planning, project execution, project monitoring and compliance and project closing.⁵⁴¹ Increasing rigor is applied to these controls with increasing project complexity.

659. During the hearing, Commission counsel questioned ATCO Gas with regard to specifics of the processes within the Capital Project Delivery model that help monitor quality and safety for capital tracker projects as they proceed. Commission counsel also sought an explanation of whether the same processes were used for monitoring and cost control with regards to capital tracker projects and non-capital tracker projects. ATCO Gas responded that the techniques and

⁵³⁷ Exhibit 94.01, ATCO Gas reply argument, paragraph 143.

⁵³⁸ Exhibit 89.01, CCA argument, paragraph 132.

⁵³⁹ Exhibit 4, ATCO Gas application, paragraph 507.

⁵⁴⁰ Exhibit 4, ATCO Gas application, paragraph 508.

⁵⁴¹ Exhibit 4, ATCO Gas application, paragraph 510.

processes it uses in project management are common across industries and that it uses standardized work procedures, where applicable, to aid in achieving consistency in quality, cost and safe delivery.⁵⁴² ATCO Gas confirmed that there is no difference in the processes and accountability used to manage capital tracker projects and projects that are not applied for as a capital tracker.⁵⁴³

660. With respect to the accountability for project costs, ATCO Gas explained that after a project is approved, the project manager is responsible for the management of costs. Furthermore, if there is a material change in the cost of a project, different levels of organizational approval are needed depending on the size of the change. Mr. Feltham explained that overall, he is responsible for the delivery of ATCO Gas's capital program.⁵⁴⁴

Commission findings

661. PBR encourages a company to seek out and realize gains in process, operational and capital productivity continually with respect to those functions and activities funded under the I-X mechanism, in order to enhance overall profitability. These activities will in turn benefit ratepayers immediately through the X factor and over the longer term through lower costs than might otherwise be the case. Capital projects funded through capital tracker treatment with a true-up to actual costs are not, however, subject to the same incentives. Accordingly, the Commission requires sufficient information in capital tracker forecast and true-up applications on the proposed capital tracker projects themselves, as well as the processes in place to manage those projects, in order to confirm the need for the project in the manner that is proposed, and to ensure the prudence of the costs incurred. The Commission considers that formal project management policies and procedures are necessary to ensure the Commission understands that the scope, level, timing and costs of forecast capital projects are reasonable and actual costs have been prudently incurred. The Commission is takes comfort in the fact that the PMBOK is a current project management guide and encourages ATCO Gas to continue to use to it to refine project management practices.

10.3 Adequacy of alternatives

662. In Decision 2013-435, the Commission set out the requirements of a business case as follows:

1092. ... the Commission finds that for the purpose of the project assessment, a program or project proposed for capital tracker treatment typically should address the following:

...

f. A discussion of any reasonable alternatives, including the rationale for recommending the proposed solution.

...⁵⁴⁵

663. In his evidence, Mr. Bell, on behalf of the UCA, noted that:

In the business case or engineering study, the utility must examine all viable options, including capital options and the possibility of using increased O&M to resolve the issue.

⁵⁴² Transcript, Volume 3, pages 406-407.

⁵⁴³ Transcript, Volume 3, page 410, line 24.

⁵⁴⁴ Transcript, Volume 3, page 410, lines 20-21.

⁵⁴⁵ Decision 2013-435, paragraph 1092.

This is particularly important for proposed CT [capital tracker] projects. When a project is afforded CT treatment, the burden of cost is shifted outside the PBR model to customers, removing the incentives to make tradeoffs of inputs between capital and O&M.⁵⁴⁶

664. Mr. Bell took issue with the lack of alternatives proposed by ATCO Gas, noting that ATCO Gas usually provided two options, being “do nothing” or complete the project as proposed by ATCO Gas. Mr. Bell explained that the purpose of a business case is to discuss the various alternatives and that a business case should always include the possibility of an O&M solution.⁵⁴⁷ Mr. Bell further stated:

In my experience in my career providing a business case that basically says I'm going to do nothing or do what I want is rarely considered an acceptable alternative inside an organization.⁵⁴⁸

665. In its rebuttal, ATCO Gas noted that it provided all reasonable alternatives. It further stated:

In many cases the lack of any reasonable alternative is plainly obvious. For example, for New Urban Service Lines, the alternatives are limited to installing service lines to connect new customers or not. There is no alternative, let alone an O&M alternative.⁵⁴⁹

666. ATCO Gas explained that it completes hundreds of projects within the capital tracker programs and that assessment of alternatives is often done on a project-by-project basis. These assessments were not provided because for most programs the timelines are such that ATCO Gas is not aware of the projects this far in advance and if the information was available at the time of filing, it is not practical to provide documentation for so many individual projects.⁵⁵⁰ ATCO Gas noted that “once an individual project within a program is initiated, the project specific alternatives are always assessed and the least cost alternative is selected.”⁵⁵¹

667. ATCO Gas further explained that its ‘do nothing’ alternative can be an O&M option. In the example of SMR, the do-nothing alternative results in no planned replacement of pipe and an increased need for inspection and emergency repair. In the example of the Transportation Equipment program, deferring replacements means repairs of older vehicles through O&M must occur. ATCO Gas also noted that O&M is not always a reasonable alternative. In the example of PMR, the failures cannot be reduced or mitigated by increased O&M. ATCO Gas explained that there is no reasonable O&M alternative for any of its capital tracker programs except SMR and Transportation Equipment.⁵⁵²

668. Mr. Bell noted that where there are O&M and capital alternatives, the incentive will be to provide capital solutions, because spending on capital may be recovered through a capital tracker while spending on O&M is to the account of the shareholder. Mr. Bell submitted that ATCO Gas be directed to provide a more rigorous assessment of alternatives, including the effect of

⁵⁴⁶ Exhibit 38.02, UCA evidence, pages 6-7.

⁵⁴⁷ Exhibit 38.02, UCA evidence, pages 8-9.

⁵⁴⁸ Transcript, Volume 6, page 913, lines 8-11 (Mr. Bell).

⁵⁴⁹ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraph 97.

⁵⁵⁰ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraphs 98-99.

⁵⁵¹ Exhibit 94.01, ATCO Gas reply argument, paragraph 160.

⁵⁵² Exhibit 59.01, ATCO Gas rebuttal evidence, paragraphs 102-128.

increasing O&M costs to address issues.⁵⁵³ Further, the UCA submitted that due to the lack of alternatives provided in ATCO Gas's business cases, the Commission should not approve ATCO Gas's programs for capital tracker treatment.⁵⁵⁴

669. In ATCO Gas's reply argument, it stated that "no intervener has put forward any actual evidence that the supposed presence of these incentives actually materialized into the behavior suggested. ATCO Gas submits that the evidence suggests the opposite."⁵⁵⁵

Commission findings

670. With respect to the UCA's position on the limited information with regard to O&M alternatives within business cases, the Commission finds that ATCO Gas explained available O&M options or the reason that no reasonable O&M options were available in its rebuttal evidence.⁵⁵⁶ The Commission notes that there were no objections provided by any of the interveners to ATCO Gas's reasons why O&M options were not preferred or available. The Commission finds the level of detail within the rebuttal evidence with respect to the availability of O&M alternatives to be adequate.

671. The Commission found value in the program specific explanation of O&M options provided in the ATCO Gas rebuttal evidence.⁵⁵⁷ The Commission directs ATCO Gas to include in business cases filed in future capital tracker applications, the types of information and level of detail provided in the rebuttal evidence relating to available O&M options. In the case where an O&M alternative is not reasonable or not possible, ATCO Gas is directed to provide a brief reason why there is no O&M alternative to this program, similar to what it has done in its rebuttal evidence, in this proceeding.

672. With regard to other capital alternatives to the recommended option in a business case, the Commission agrees with ATCO Gas that providing the project-by-project alternatives for hundreds of smaller, ordinary course individual projects would generally be of little value and would not promote regulatory efficiency. However, the Commission and parties would benefit from increased insight into ATCO Gas's decision-making process resulting in the selection of low cost alternatives for smaller projects to ensure that ATCO Gas is acting in a prudent manner when selecting project alternatives. In future capital tracker and capital tracker true-up applications, the Commission directs ATCO Gas to provide details of the decision making process resulting in the selection of least cost alternatives and at least two examples at the project-by-project level that contain all alternatives considered by ATCO Gas, for each applied-for capital tracker program.

673. At the larger project level and at the program level, the Commission agrees with the UCA that one capital alternative is generally inadequate. It is difficult for the Commission and interveners to assess the validity of the chosen option when no other option is presented for comparison. For the purpose of this application, the Commission considers ATCO Gas's business cases to be acceptable. However, in future applications, the Commission directs ATCO

⁵⁵³ Exhibit 38.02, UCA evidence, pages 6 and 11.

⁵⁵⁴ Exhibit 87.02, UCA argument, paragraph 29.

⁵⁵⁵ Exhibit 90.01, ATCO Gas argument, paragraph 79.

⁵⁵⁶ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraphs 102-128.

⁵⁵⁷ Exhibit 59.01, ATCO Gas rebuttal evidence, paragraphs 102-128.

Gas to provide at least two capital alternatives, where possible, for all larger projects and programs, or to explain why only one alternative is available.

10.4 Indexation of the capitalization threshold

674. In argument, the CCA proposed that ATCO Gas be required to index its capitalization threshold similar to how the materiality thresholds are indexed. The CCA noted that ATCO Gas's capitalization threshold for fixed assets is \$300, the relevance of which, without indexing, would be reduced by inflation.⁵⁵⁸ The CCA provided an example of a tool that cost \$299 in one year and then the next year the price, as a result of inflation, rises to \$301. The CCA explained that the cost of the tool was recorded to O&M in the first year, however in the second year the cost of an identical tool becomes a capital cost. The CCA submitted that this results in the costs being shifted from the I-X mechanism to capital trackers.

675. Overall, the CCA's recommendation is that the capitalization threshold be indexed, as this would be consistent with the method of indexing capital tracker materiality thresholds.

676. ATCO Gas responded that the CCA's assertion that ATCO Gas has a \$300 capitalization threshold is incorrect because ATCO Gas's two largest fixed assets accounts, main and services, have no capitalization threshold. Furthermore, ATCO Gas stated that by indexing the capitalization threshold, a different threshold would be established for capital tracker and accounting test calculations than is used by ATCO Gas for accounting purposes. ATCO Gas explained that the threshold embedded in going-in rates should not differ from the one used in the accounting test.⁵⁵⁹ ATCO Gas confirmed that its capitalization approach is "consistent and unchanged, complies with the PBR principles contemplated by the Commission and does not increase regulatory burden."⁵⁶⁰

Commission findings

677. In Decision 2012-237, the Commission directed at paragraph 862, that each company file an officer's attestation with each annual PBR rate adjustment filing attesting to, among other things, that there had been no changes to capitalization policies or, if there had been, what those changes were and why they were made. The Commission accepts that ATCO Gas has not changed its capitalization policy following the implementation of PBR, and that its capitalization policy is consistent with historical approaches undertaken in past general tariff applications. Accordingly, the Commission accepts the capitalization practices utilized by ATCO Gas in the application for purposes of capital tracker applications during the current PBR term. Changes to capitalization practices of the nature discussed by the CCA should be reviewed in the next ATCO Gas rate-related proceeding.

11 K factor calculation methodology and the resulting 2013-2015 K factor amounts

11.1 2013 K factor true-up

678. In Decision 2013-435, the Commission did not approve any of the projects being proposed for capital tracker treatment because ATCO Gas did not use the project net cost approach in its 2013 capital tracker application. ATCO Gas was directed to retain, in rates, its

⁵⁵⁸ Exhibit 76.01, CCA argument, paragraph 301.

⁵⁵⁹ Exhibit 94.01, ATCO Gas reply argument, paragraphs 144-145.

⁵⁶⁰ Exhibit 94.01, ATCO Gas reply argument, paragraphs 147.

then current K factor placeholder, equivalent to 60 per cent of its applied-for 2013 forecast K factor amount.⁵⁶¹ ATCO Gas also noted in Decision 2013-460,⁵⁶² the Commission directed ATCO Gas to include 60 per cent of its applied-for 2013 K factor as a placeholder in its 2013 rates. In Decision 2014-296,⁵⁶³ the Commission allowed ATCO Gas a 90 per cent placeholder for its 2013 and 2014 capital tracker K factor quantities.

679. In its original 2013 capital tracker application, ATCO Gas applied for the 2013 forecast K factor of \$10.321 million to be recovered from its customers on an interim basis. In the current 2014-2015 capital tracker and 2013 true-up application, ATCO Gas calculated an actual 2013 K factor to be \$9.557 million for the north and \$5.558 million for the south, resulting in a proposed 2013 K factor true-up adjustment of \$4.794 million.

680. ATCO Gas indicated that it calculated the proposed 2013 K factor true-up adjustment in accordance with the provisions set out in Decision 2012-237 and Decision 2013-435. Specifically, at paragraph 976 of Decision 2012-237, the Commission stated:

976. The results of the prudence review and cost true-up will be an adjustment to the K factor included in the following year's rates. The companies will calculate the revenue requirements resulting from the actual capital tracker expenditures, and compare those to the forecast amounts that were collected on an interim basis in the prior year. The difference between the approved revenue requirements and the forecast revenue requirements for the prior year will form the basis for the K factor true-up rate adjustment. In addition, because the capital expenditures will remain in the tracker for the duration of the PBR term, the amounts to include in the capital tracker revenue requirement calculations in subsequent years during the PBR term will be based on the actual approved expenditures rather than the initial forecasts.

681. The Commission provided further guidance on the K factor true-up at paragraphs 503 to 506 of Decision 2013-435:

503. At the time of the true-up applications, the above calculations will be repeated using the actual, rather than the forecast, capital additions for the previous PBR year. If the actual capital additions for a project or program approved for capital tracker treatment in the previous year are lower than the forecast, but still exceed the four basis point threshold, that project will continue to receive capital tracker treatment. This means that in subsequent years a revised, lower portion of the revenue requirement not funded under the I-X mechanism in the previous year shall be included in the K factor calculation. The difference between the lower portion of the revenue requirement not funded under the I-X mechanism in the previous year and the amounts collected by way of a capital tracker in the previous year for that project, or program, will be refunded to customers.

504. If the actual capital additions for a project or program approved for capital tracker treatment in a previous year are lower than forecast and do not exceed the four basis point threshold, on true-up, the K factor will be adjusted in respect of the previous year based on the actual dollars spent on that project or program. The difference between the forecast portion of the revenue requirement not funded under the I-X mechanism and the actual portion not funded under the I-X mechanism for that project, or program, will

⁵⁶¹ Decision 2013-435, paragraphs 701 and 702.

⁵⁶² Decision 2013-460, paragraph 58.

⁵⁶³ Decision 2014-296: ATCO Gas and Pipelines Ltd., 2014 Interim Rates, Proceeding 3282, Application 1610653-1, October 24, 2014.

be refunded to customers. However, capital tracker treatment for the previous year's project or program will be discontinued for subsequent PBR years. This means that in subsequent years none of the revenue requirement for this project or program shall be included in the K factor calculation. If the project or program extends into a subsequent PBR year, in order to receive capital tracker treatment for that project or program in the subsequent PBR year, the company will be required to reapply for capital tracker treatment.

505. Consistent with this approach, in the event that the actual K factor (i.e., the sum of all portions of the revenue requirements not funded under the I-X mechanism for all capital trackers), based on the company's actual additions in the previous year, does not satisfy the 40 basis point threshold, on true-up, the findings in the preceding paragraph will apply to all of the projects approved for capital tracker treatment in the previous year.

506. Finally, if the actual capital additions for a project or program approved for capital tracker treatment in a previous PBR year are lower than forecast to the extent that a project or a program was, in effect, fully funded under the I-X mechanism in the previous year, the K factor will be adjusted in respect of the previous year so that no portion of the revenue requirement for that project will be included in the K factor calculation in that year. The portion of the revenue requirement collected by way of a capital tracker on a forecast basis, in the previous year, will be refunded to customers. Capital tracker treatment for the previous year's project or program will be discontinued for subsequent PBR years. If the project or program extends into a subsequent PBR year, in order to receive capital tracker treatment for that project or program in the subsequent PBR year, the company will be required to reapply for capital tracker treatment.

682. In Section 6, the Commission confirmed the prudence of most of the actual capital additions associated with each of ATCO Gas's capital tracker projects or programs in 2013. However, as set out in Section 6.6.1 of this decision, the Commission directed ATCO Gas, in its compliance filing to this decision, to delay collection of certain costs related to its SMR program in its K factor calculations. For that reason, the Commission cannot approve K factors for this program at this time. Further, as the Commission has directed ATCO Gas in this decision, to make certain changes to its accounting test and the materiality test, it cannot approve a final K factor amount for any of the proposed 2013 programs at this time.

683. Nevertheless, the Commission has reviewed ATCO Gas's calculations and finds that ATCO Gas's K factor true-up methodology is generally consistent with the requirements set out in Decision 2012-237 and Decision 2013-435. The Commission notes that in Decision 2014-296, the Commission approved a placeholder representing 90 per cent of the total capital trackers claimed by ATCO Gas in this proceeding to be collected through an adjustment to Rider S in both the north and the south. The Commission considers that methodology to be proper in this instance as well. Once ATCO Gas has reflected the required adjustments to its K factors in the compliance filing to this decision, the 2013 K factor amounts will be adjusted for collection through Rider S. The Commission directs ATCO Gas, in the compliance filing to this decision, to propose how the approved 2013 K factor amounts will be allocated to its customers in its rates.

11.2 2014-2015 K factor forecast

684. As summarized in Table 1 from Section 4 of this decision, in the 2014-2015 capital tracker and 2013 true-up application, ATCO Gas calculated the 2014 forecast K factors to be

\$15.645 million for the north and \$8.671 million for the south. The 2015 forecast K factors were calculated to be \$24.269 million for the north and \$14.582 million for the south. In Decision 2014-296, the Commission allowed ATCO Gas a 90 per cent placeholder for its 2014 capital tracker quantities. This 90 per cent placeholder was based on the 2014 K factor amount under consideration in this application.

685. To calculate the K factor adjustment in its 2014 PBR rates, ATCO Gas first allocated the 90 per cent placeholder to rate components within customer rate classes using the methodology approved by the Commission in Decision 2013-072 and Decision 2013-460. ATCO Gas then calculated the 2014 K factor rate adjustment for each rate component within rate classes by dividing the allocated amount by the relevant billing determinants for that rate component.

Commission findings

686. In Section 6, the Commission determined that ATCO Gas's forecast capital expenditures for the proposed 2014-2015 capital tracker projects (with the exception of the SMR program) were reasonable. However, because the directed revisions will result in changes to the 2014 and 2015 forecast K factor amounts, the Commission cannot approve a 2014 or 2015 K factor adjustment for ATCO Gas, at this time. Further, as the Commission has directed ATCO Gas in this decision to make certain changes to its accounting test and materiality test, it cannot approve a final K factor amount for any of the proposed 2014 and 2015 programs, at this time.

687. Nevertheless, the Commission has reviewed ATCO Gas's calculations and finds that ATCO Gas's K factor calculation methodology for 2014 is generally consistent with the requirements set out in Section 4.4 of Decision 2013-435. Further, the Commission agrees in principle with ATCO Gas's proposal to calculate the 2014 forecast K factor rate adjustments by first allocating the forecast amount to rate classes using the methodology approved in Decision 2013-072 and Decision 2013-460 and then calculating the K factor adjustment rate for each rate class by dividing the allocated amount by the relevant billing determinants.

688. In Decision 2013-072, the Commission approved a K factor placeholder of \$5.71 million for 2013, representing some 60 per cent of the applied-for amount, to be included in ATCO Gas's 2014 PBR rates.⁵⁶⁴ In Decision 2013-460, the Commission approved a K factor placeholder of \$13.196 million, equal to 60 per cent of the proposed 2014 K factor, to be included in ATCO Gas's 2014 PBR rates.⁵⁶⁵ Further, in Decision 2014-296, the Commission approved a placeholder of 90 per cent for 2013 and 2014 of the K factor amounts included in this application. These placeholder amounts were recovered in November and December of 2014 and the 2015 interim rates include the same 90 per cent placeholder from 2014.⁵⁶⁶

689. Consistent with the findings in Section 11 of this decision, and consistent with ATCO Gas's past practices, the Commission considers that ATCO Gas should propose a collection method to collect the difference between the respective 2014 and 2015 K factor placeholder amounts and the approved 2014 and 2015 K factor forecast amounts. The final 2014 and 2015 K factor amounts will be reviewed by the Commission in the compliance filing to this decision. The Commission notes that in Decision 2014-296, the Commission approved a placeholder representing 90 per cent of the total capital trackers claimed by ATCO Gas in this proceeding to

⁵⁶⁴ Decision 2013-072, page 9, paragraph 41.

⁵⁶⁵ Decision 2013-460, paragraph 77.

⁵⁶⁶ Decision 2014-295, paragraphs 30-33.

be collected through an adjustment to Rider S in the north and the south. The Commission considers that methodology to be proper in this instance as well. The Commission directs ATCO Gas, in the compliance filing to this decision, to propose how the approved K factor amounts will be allocated to its customers in its rates.

690. In summary, the Commission directs ATCO Gas, in its compliance filing, to adjust its applied-for K factor amounts in accordance with the directions in this decision. These revised amounts will then be compared to the 90 per cent placeholder amounts embedded in rates and the shortfall shown clearly for each of 2013, 2014 and 2015. ATCO Gas is directed to provide its rate calculation schedules in linked Excel format in order for the Commission and interested parties to verify ATCO Gas's calculations. Should ATCO Gas choose to utilize the existing Rider S for the collection/refund of these amounts, it should ensure the 2013 true-up adjustments, and the difference between the respective 2014 and 2015 K factor placeholder amounts and the approved 2014 and 2015 K factor forecast amounts, are clearly shown. The effective date and the duration of the collection period for the rate adjustments should be commensurate with the Commission's process timelines set out in Bulletin 2010-16 and take into account the effect on customer bills.

691. The Commission notes that ATCO Gas has applied to correct its K factor calculations due to certain errors it discovered after its application had been filed.⁵⁶⁷ ATCO Gas stated that the impact to each K factor due to its corrections would be a reduction of approximately \$60,000 for 2013, an increase of approximately \$10,000 for 2014, and a reduction of approximately \$210,000 for 2015. ATCO Gas proposed to make its corrections in either the compliance application or through the capital tracker true-up process. The Commission has reviewed the back-up ATCO Gas provided for its corrections and finds them to be acceptable. The Commission directs ATCO Gas to include the corrections in the compliance filing to this decision.

⁵⁶⁷ Exhibit 65.01, ATCO Gas application errata, November 10, 2014.

12 Order

692. It is hereby ordered that:

- (1) ATCO Gas and Pipelines Ltd. is directed to file a compliance filing application in accordance with the directions contained within this decision on April 27, 2015.

Dated on March 19, 2015.

Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Neil Jamieson
Commission Member

(original signed by)

Henry van Egteren
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
ATCO Gas and Pipelines Ltd. (ATCO Gas or AG) Bennett Jones LLP
ATCO Electric Ltd.
AltaGas Utilities Inc. (AUI)
The City of Calgary (Calgary) McLennan Ross
Consumers' Coalition of Alberta (CCA)
FortisAlberta Inc. (Fortis)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP

Alberta Utilities Commission
Commission panel
M. Kolesar, Vice-Chair
N. Jamieson, Commission Member
H. van Egteren, Commission Member
Commission staff
B. McNulty (Associate General Counsel)
L. Desaulniers (Commission Counsel)
B. Whyte
C. Runge
E. Deryabina
J. Work
P. Genderka
N. Mahbub
A. Corsi
S. Levin

Appendix 2 – Oral hearing – registered appearances

Name of organization (abbreviation) counsel or representative	Witnesses
ATCO Gas L. Smith, QC D. Sheehan	M. Whittal G. Feltham B. Smetaniuk M. Bayley V. Berger
Consumers' Coalition of Alberta (CCA) J. Wachowich	J. Jodoin J. Thygesen
Office of the Utilities Consumer Advocate (UCA) T. Marriott, QC	R. Bell
The City of Calgary (Calgary) D. I. Evanchuk S. D. Parker	H. Johnson G. Matwichuk

<p>Alberta Utilities Commission</p> <p>Commission panel</p> <ul style="list-style-type: none"> M. Kolesar, Vice-Chair N. Jamieson, Commission Member H. van Egteren, Commission Member <p>Commission staff</p> <ul style="list-style-type: none"> B. McNulty (Associate General Counsel) S. Boyd (Commission Counsel) L. Desaulniers (Commission Counsel) B. Whyte B. Miller C. Runge J. Work

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 has reviewed the separate accounting tests for each of the north and the south, and the corresponding north and south K factors. The Commission is mindful that a lower materiality threshold may indeed cause certain projects to qualify for capital tracker treatment that would not normally, were the materiality threshold combined. However, the Commission considers that this issue goes both ways, in that combining the north and the south projects under a combined materiality threshold could also cause projects to qualify for capital tracker treatment when considered on an aggregate basis. The Commission finds that until ATCO Gas is directed to move to an Alberta-wide rate model with one rate base, it will be required to maintain its current practice of calculating rate base and performing its grouping and accounting test calculations utilizing its separate north and south calculations. Paragraph 38
2. The Commission notes that the program grouping of Urban Main Replacement (UMR) program, since renamed as the Steel Main Replacement (SMR) program, was previously approved in Decision 2013-435. At the time, this grouping contained only expenditures from 2013 and did not consider any historical expenditures. In this proceeding, ATCO Gas has grouped historical programs with its current programs for the purposes of the accounting test. With regard to the bare main replacement program expenditures, the Commission notes that Ms. Berger admitted that the project should have been included as part of the SMR program. The Commission directs ATCO Gas to group the bare main replacement program and the SMR program and adjust for any changes to the accounting test in a compliance filing. Paragraph 101
3. In its accounting test, ATCO Gas included several different groupings that are related to metering. The Commission notes that grouping of the MRRP was previously approved in Decision 2013-435. ATCO Gas applied for five new metering-related projects and programs, including Regulating Metering Station Improvements, New Regulating Meter Stations, Meter Set Improvements, Meters and Instruments, and Regulators and Meter Installations. The Commission accepts that ATCO Gas has historically separated its metering capital additions into these categories and therefore accepts these groupings for the purpose of this decision. However, other than for limited discussion at the oral hearing, there was little evidence on the record of the proceeding explaining why it is necessary to continue to separate these related projects and programs for capital tracker purposes. Mr. Whittall explained the differences between the various meter programs. The Commission considers that these distinctions may not be sufficient, on their own, to justify the continued separation of each of these programs and resulting groups in future years. The Commission considers that there are many instances of capital trackers that include different types of interrelated assets that are included within the same grouping because the various capital additions all have similar drivers. Accordingly, ATCO Gas is directed to consider, in its next capital tracker application, the possibility of grouping all five new metering-related projects and programs into a single grouping, and whether such a grouping is warranted. If it remains unwarranted to group all metering-related costs into a single grouping, ATCO Gas shall provide a full explanation. Paragraph 102

4. The Commission notes that ATCO Gas has a single capital tracker dealing with rural main extensions and service lines, but that it separates urban main extensions and new urban service lines into two capital trackers. The Commission accepts that ATCO Gas has historically separated the urban main extensions and new urban service lines into these categories and therefore, accepts these groupings for the purpose of this decision. However, other than a limited discussion at the oral hearing, there was little evidence on the record of the proceeding explaining why it is necessary to continue to separate the groupings for capital tracker purposes. ATCO Gas explained that the distinction between these programs is based on timing. The Commission considers that this distinction may not be sufficient, on its own, to justify continued separation of each of these programs and resulting groups in future years. Accordingly, ATCO Gas is directed to consider, in its next capital tracker application, the possibility of grouping the urban main extensions and new urban service lines into a single grouping. If it remains unwarranted to group these costs into a single grouping, ATCO Gas shall provide a full explanation.
..... Paragraph 104
5. The Commission found, with respect to EDTI in Decision 3100-D01-2015, that other than in respect of those capital trackers where the Commission had directed EDTI to reconsider the grouping in its next capital tracker application, “a major change to EDTI’s approach to grouping (such as basing project grouping on asset type) is best considered together with the review of the capital tracker mechanism as a whole, in a future proceeding dealing with the second generation of a PBR plan for EDTI.” Likewise, in order to monitor the potential issue of strategic grouping, the Commission directs ATCO Gas to provide a clear and concise delineation of any changes to, and any reasons for changes to, its groupings in future capital tracker applications. The Commission will be reluctant to authorize any change to groupings proposed by ATCO Gas unless there are significant technological changes or non-management driven reasons for the change. The Commission directs ATCO Gas to include a section in its future capital tracker applications specifically addressing this matter. Paragraph 108
6. In its compliance filing to this decision, ATCO Gas is directed to limit the total pool of overheads for each of 2013, 2014 and 2015 to the lower of the amounts in this application or amounts reflecting increases by I-X, for each year, applied to the 2012 total pool of overheads approved in Decision 2011-450 dealing with ATCO Gas’s 2012 rates. This recalculated total pool of overheads should then be allocated to ATCO Gas’s 2013 actual capital expenditures and 2014-2015 forecast capital expenditures, including capital tracker projects, consistent with the company’s capitalization and allocation methodologies. Paragraph 147
7. In its compliance filing to this decision, the Commission directs ATCO Gas to explain the discrepancies between these two schedules with respect to capital additions, and to update its schedules with the correct capital additions to make the capital addition values used in each schedule consistent. In the following sections of this decision, the Commission approves certain projects and programs for capital tracker treatment, and approves the actual or forecast capital expenditures for each of these projects or programs on the basis that the capital additions in Schedule A5 are correct. These approvals are conditional on, and subject to, the direction above requiring the company, in its compliance filing, to update its schedules with the correct capital addition values for each project and program. To the extent that the correct capital additions are different from the values in Schedule A5, which currently reconcile to the capital expenditures in each

- business case, ATCO Gas is directed to provide justification to support the revised amounts. In the event that any amounts are materially different from the values in Schedule A5, the Commission may need to reassess the prudence of 2013 actual costs and the reasonableness of 2014 and 2015 forecast costs. Paragraph 154
8. To help alleviate concerns over the consistency of the capital addition values used throughout ATCO Gas’s application, for its next capital tracker application, ATCO Gas is directed to include a table in each business case outlining capital expenditures and capital additions. Paragraph 155
 9. Although the Commission has approved the prudence of the 2013 SMR project, the Commission requires further information with respect to this project in future true-up proceedings. ATCO Gas provided a detailed breakdown of costs for the 2014 and 2015 forecasts, but ATCO Gas did not provide a similar level of detail for the 2011-2013 actuals. As noted during the oral hearing, this lack of detail makes it difficult to address concerns around backup calculations. The Commission directs ATCO Gas to provide a greater level of detail on its actual costs in future capital tracker true-up applications in order for the Commission to be able to assess actual costs and cost variances adequately. Paragraph 192
 10. The Commission agrees with the method proposed by ATCO Gas in Exhibit 75.01, which calculated the incremental cost to consumers of advancing the replacements to 2011 rather than doing them at a later date. The Commission directs ATCO Gas to use this accounting method in a compliance filing, assuming the expenditures would have been incurred evenly over the three years 2015, 2016 and 2017. Paragraph 220
 11. The Commission accepts ATCO Gas’s view that it may not be possible to design a demerit point system that can be used as the sole decision maker in every instance. The Commission considers that the professional judgement of ATCO Gas engineers should continue to play an important role in the assessment of ATCO Gas steel mains. Nevertheless, the Commission considers that using an objective tool, like the demerit point system, to assess the safety and reliability of ATCO Gas’s system that is based primarily on the physical attributes of the pipe being considered and the environment in which it is placed, is helpful in assessing the need for pipe replacements. This type of assessment provides the Commission and interveners with evidence to help verify the reasonableness of proposed capital expenditures. Accordingly, the Commission directs ATCO Gas to reconsider the design of its current demerit point system and to propose revisions to the demerit point system for consideration in its next capital tracker application, including providing suggestions for which factors should be eliminated from, or added to, the system and for changes to current weighting. ATCO Gas should provide reasons for all proposed changes to factors and weightings. ATCO Gas should also provide a timeline for the possible implementation of the revised demerit point system. Paragraph 231
 12. The Commission notes that ATCO Gas considers leak frequency and the demerit points when writing an engineering assessment, despite the fact that leak frequency is one of the factors considered by the demerit point system. This would appear to be double-counting of the leak frequency data in the face of many other factors that also need to be considered. However, the Commission agrees with ATCO Gas that leak frequency is an important piece of data and it can be difficult to give adequate weight to leak frequency data when it is included in the demerit point system. In its proposed revisions to the

- demerit point system, the Commission directs ATCO Gas to consider whether the leak frequency data should continue to be included in the demerit point system, in addition to considering it separately when completing an engineering assessment. If it prefers to continue to include the leak frequency data in the demerit point system, ATCO Gas shall provide a full explanation as to its reasons. Paragraph 232
13. Nevertheless, the Commission observes that, since the filing of ATCO Gas’s 2014-2015 capital tracker and 2013 true-up application, the 2015 I-X index and billing determinants forecast have been approved in Decision 2014-363, which deals with ATCO Gas’s 2015 annual PBR rate adjustment filing. To minimize future true-ups, the Commission directs ATCO Gas, in its compliance filing to this decision, to use the 2015 I-X index value and the Q factors based on the forecast billing determinants approved in Decision 2014-363 for purposes of its 2015 capital tracker forecast accounting test. Paragraph 580
 14. Accordingly, ATCO Gas is directed to incorporate into its compliance filing to this decision all changes to 2013, 2014 and 2015 WACC rates directed by the Commission in Decision 3434-D01-2015, including changes, if any, that result from the Commission’s decision in Proceeding 2191. Paragraph 588
 15. In reviewing ATCO Gas’s income tax calculations, which were provided as a single hard-coded number for each capital project or program in the accounting test spreadsheet in ATCO Gas’s application, the Commission considers that the level of disclosure initially provided by ATCO Gas was not helpful to the Commission and interveners in understanding the mechanics of ATCO Gas’s income tax calculations. There were several assumptions and allocations required as part of the income tax calculations, and the Commission considers that it is necessary for the company to disclose its assumptions and allocations in order for the Commission and interested parties to be able to assess whether those assumptions and allocations are reasonable. Accordingly, in future capital tracker applications, ATCO Gas is directed to provide a breakdown of its capital tracker income tax calculations into their component parts: return, interest, depreciation, capital cost allowance, indirect capital costs, removal costs and capitalized pension costs. In addition, in future capital tracker applications, ATCO Gas is directed to provide supporting calculations for any income tax components that were assigned to capital projects or programs using an allocation methodology, and provide an explanation of how the total amounts to be allocated were calculated. Paragraph 601
 16. The Commission directs ATCO Gas, in its compliance filing to this decision, to adopt the alternative method for allocating capital cost allowances. ATCO Gas is also directed to provide a more refined version of the alternative method to capture more effectively how the actual capital cost allowance deductions would be applied to all capital tracker projects and programs and, in particular, for those projects and programs that were initiated prior to 2001, for which ATCO Gas continued to allocate capital cost allowances according to the amount of depreciation expense for each project or program. To do this, ATCO Gas should develop an estimate of the opening undepreciated capital costs (UCC) for tax purposes in 2001 for each project or program, develop an estimate for the annual UCC additions for each year in the same manner as the estimates for the projects undertaken since 2001, and develop a separate capital cost allowance calculation for each capital tracker project or program in the same manner as the calculations for the projects undertaken since 2001. ATCO Gas should compare the results of the refined version of

- the alternative method and the alternative method provided in the response to the undertaking and discuss the relevance of any variances. Paragraph 607
17. Accordingly, although the Commission finds the general form of ATCO Gas’s accounting test model to be reasonable and consistent with the methodology approved in Decision 2013-435, the Commission cannot make a determination in this decision as to whether any of ATCO Gas’s projects or programs proposed for capital tracker treatment in 2013 2015 satisfies the accounting test requirement of Criterion 1 and accordingly, whether any of ATCO Gas’s projects or programs satisfy Criterion 1 in its entirety. The Commission directs ATCO Gas, in its compliance filing to this decision, to revise its accounting test for 2013, as well as for 2014-2015, based on approved actual capital additions or approved forecasts, model assumptions and other directions as set out in this decision. Paragraph 632
 18. In subsequent capital tracker true-up applications, the Commission directs ATCO Gas to address whether the driver for any of the previously approved forecast projects or programs has changed, so as to warrant a reassessment under Criterion 2. In the event that the driver of the project or program has changed since the forecast project or program was approved, ATCO Gas is directed to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2. Paragraph 639
 19. The Commission observes that, since the filing of ATCO Gas’s 2014-2015 capital tracker and 2013 true-up application, the 2015 I-X index has been approved in Decision 2014-363. To minimize future true-ups, the Commission directs ATCO Gas, in its compliance filing to this decision, to use the 2015 I-X index value of 1.49 per cent approved in Decision 2014-363 to calculate the first and second tier materiality thresholds for each capital tracker and for all capital trackers applied for in the aggregate, in 2015. Paragraph 649
 20. Given these findings, the Commission directs ATCO Gas, in its compliance filing to this decision, to reassess each of its projects and programs proposed for capital tracker treatment in 2013 to 2015, to determine if they satisfy the two-tiered materiality test requirement of Criterion 3. For this reassessment, ATCO Gas will use the approved 2013 and 2014 threshold amounts, as well as revised 2015 threshold amounts, as directed above. Paragraph 652
 21. The Commission found value in the program specific explanation of O&M options provided in the ATCO Gas rebuttal evidence. The Commission directs ATCO Gas to include in business cases filed in future capital tracker applications, the types of information and level of detail provided in the rebuttal evidence relating to available O&M options. In the case where an O&M alternative is not reasonable or not possible, ATCO Gas is directed to provide a brief reason why there is no O&M alternative to this program, similar to what it has done in its rebuttal evidence, in this proceeding. Paragraph 671
 22. With regard to other capital alternatives to the recommended option in a business case, the Commission agrees with ATCO Gas that providing the project-by-project alternatives for hundreds of smaller, ordinary course individual projects would generally be of little value and would not promote regulatory efficiency. However, the Commission and parties would benefit from increased insight into ATCO Gas’s decision-making process resulting in the selection of low cost alternatives for smaller projects to ensure that ATCO

Gas is acting in a prudent manner when selecting project alternatives. In future capital tracker and capital tracker true-up applications, the Commission directs ATCO Gas to provide details of the decision making process resulting in the selection of least cost alternatives and at least two examples at the project-by-project level that contain all alternatives considered by ATCO Gas, for each applied-for capital tracker program.

..... Paragraph 672

23. At the larger project level and at the program level, the Commission agrees with the UCA that one capital alternative is generally inadequate. It is difficult for the Commission and interveners to assess the validity of the chosen option when no other option is presented for comparison. For the purpose of this application, the Commission considers ATCO Gas's business cases to be acceptable. However, in future applications, the Commission directs ATCO Gas to provide at least two capital alternatives, where possible, for all larger projects and programs, or to explain why only one alternative is available.

..... Paragraph 673

24. Nevertheless, the Commission has reviewed ATCO Gas's calculations and finds that ATCO Gas's K factor true-up methodology is generally consistent with the requirements set out in Decision 2012-237 and Decision 2013-435. The Commission notes that in Decision 2014-296, the Commission approved a placeholder representing 90 per cent of the total capital trackers claimed by ATCO Gas in this proceeding to be collected through an adjustment to Rider S in both the north and the south. The Commission considers that methodology to be proper in this instance as well. Once ATCO Gas has reflected the required adjustments to its K factors in the compliance filing to this decision, the 2013 K factor amounts will be adjusted for collection through Rider S. The Commission directs ATCO Gas, in the compliance filing to this decision, to propose how the approved 2013 K factor amounts will be allocated to its customers in its rates. Paragraph 683

25. Consistent with the findings in Section 11 of this decision, and consistent with ATCO Gas's past practices, the Commission considers that ATCO Gas should propose a collection method to collect the difference between the respective 2014 and 2015 K factor placeholder amounts and the approved 2014 and 2015 K factor forecast amounts. The final 2014 and 2015 K factor amounts will be reviewed by the Commission in the compliance filing to this decision. The Commission notes that in Decision 2014-296, the Commission approved a placeholder representing 90 per cent of the total capital trackers claimed by ATCO Gas in this proceeding to be collected through an adjustment to Rider S in the north and the south. The Commission considers that methodology to be proper in this instance as well. The Commission directs ATCO Gas, in the compliance filing to this decision, to propose how the approved K factor amounts will be allocated to its customers in its rates. Paragraph 689

26. In summary, the Commission directs ATCO Gas, in its compliance filing, to adjust its applied-for K factor amounts in accordance with the directions in this decision. These revised amounts will then be compared to the 90 per cent placeholder amounts embedded in rates and the shortfall shown clearly for each of 2013, 2014 and 2015. ATCO Gas is directed to provide its rate calculation schedules in linked Excel format in order for the Commission and interested parties to verify ATCO Gas's calculations. Should ATCO Gas choose to utilize the existing Rider S for the collection/refund of these amounts, it should ensure the 2013 true-up adjustments, and the difference between the respective 2014 and 2015 K factor placeholder amounts and the approved 2014 and 2015 K factor

forecast amounts, are clearly shown. The effective date and the duration of the collection period for the rate adjustments should be commensurate with the Commission's process timelines set out in Bulletin 2010-16 and take into account the effect on customer bills.

..... Paragraph 690

27. The Commission notes that ATCO Gas has applied to correct its K factor calculations due to certain errors it discovered after its application had been filed. ATCO Gas stated that the impact to each K factor due to its corrections would be a reduction of approximately \$60,000 for 2013, an increase of approximately \$10,000 for 2014, and a reduction of approximately \$210,000 for 2015. ATCO Gas proposed to make its corrections in either the compliance application or through the capital tracker true-up process. The Commission has reviewed the back-up ATCO Gas provided for its corrections and finds them to be acceptable. The Commission directs ATCO Gas to include the corrections in the compliance filing to this decision. Paragraph 691

28. ATCO Gas and Pipelines Ltd. is directed to file a compliance filing application in accordance with the directions contained within this decision on April 27, 2015.
..... Paragraph 692(1)