



## **ATCO Gas and Pipelines Ltd.**

**Compliance with Commission Direction from Decision 2010-291**

**January 28, 2016**

**Alberta Utilities Commission**

Decision 21130-D01-2016

ATCO Gas and Pipelines Ltd.

Compliance with Commission Direction from Decision 2010-291

Proceeding 21130

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## **1 Introduction**

1. On December 4, 2015, ATCO Gas and Pipelines Ltd. (ATCO Gas) submitted an application requesting approval of its compliance with a direction from Decision 2010-291, ATCO Gas 2008-2009 General Rate Application – Phase II Negotiated Settlement.<sup>1</sup> ATCO Gas submitted that the analysis provided as an attachment to the application demonstrates that no undue cross-subsidization is occurring amongst rate groups. ATCO Gas further submitted that matters related to the implementation of changes to cost allocation and rate design should be discussed in Proceeding 20414, next generation performance-based regulation (PBR), given that that the “timing and incorporation of results arising from Phase II proceedings” is on the issues list in that proceeding.<sup>2</sup>
2. On December 4, 2015, the Commission issued a notice of application, requiring interested parties to submit a statement of intent to participate (SIP) by December 14, 2015. In their SIPs, parties were to provide a description of their interest in the proceeding, an explanation of their position, including information in support of the position taken, and submissions as to whether further process was required.
3. The Commission received a SIP from The City of Calgary on December 14, 2015, stating that it actively participates in regulatory proceedings concerning ATCO Gas but with no specifics relative to this application.
4. By letter dated December 22, 2015, the Commission determined that the application would be considered by way of a notice-only process. As stated in Commission Bulletin 2015-09,<sup>3</sup> the record development phase of a notice-only proceeding is expected to take no more than 24 calendar days from the receipt of application, assuming that a complete application is received and there are no procedural delays. As further stated in Bulletin 2015-09, it is anticipated that a decision will be released no more than 45 calendar days following the close of record for a notice-only proceeding. The Commission considers the record for this proceeding closed on December 14, 2015.
5. In reaching the determinations set out in this decision the Commission has considered all relevant materials comprising the record of this proceeding. References in this decision to specific parts of the record are intended to assist the reader in understanding the Commission’s reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

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<sup>1</sup> Decision 2010-291: ATCO Gas 2008-2009 General Rate Application – Phase II Negotiated Settlement, Proceeding 184, Application 1604944-1, June 25, 2010.

<sup>2</sup> Proceeding 20414, Exhibit 20414-X0026, Final Issues List Attachment, Issue 1(e), page 11, as referenced in the cover letter to this application in Exhibit 21130-X0001.

<sup>3</sup> Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.

## 2 Background

6. In Decision 2010-291, the Commission approved ATCO Gas's 2008-2009 GRA - Phase II negotiated settlement. At paragraph 197 of Decision 2010-291, the Commission provided the following direction (Direction 11) to ATCO Gas:

197. While the Commission has approved the Settlement in its entirety, this Decision has highlighted certain informational and analytical requirements to be addressed in future Phase II filings. These future Phase II filing requirements all relate to enhancing the understanding of the Commission and parties of the customer impacts over time of the changes to cost allocations and rate design provided for in the Settlement. This information will assist the Commission and parties in determining whether or not modifications to the cost allocations, rate groups or rate design may be required. Consistent with this objective the Commission directs ATCO to file an update with the Commission prior to December 31, 2015 which evaluates the changes to cost allocation and rate design in light of the objectives, goals and benefits it was designed to achieve and identifying any undue cross-subsidizations that may be occurring. As part of this filing, ATCO should consider the merits of filing a COSS [cost-of-service study] in order to substantiate its findings.

7. In response to this direction, ATCO Gas provided in Attachment 1 an analysis, comparing its existing rates for 2014 under PBR with rates that would have resulted from a cost-of-service revenue requirement based on 2014 actual costs. ATCO Gas did not provide a COSS. ATCO Gas explained the basis for its analysis, "Under PBR revenues and costs are delinked and ATCO Gas's revenue is adjusted annually by the approved PBR formula. As such, ATCO Gas does not have an approved revenue requirement during the PBR term to perform a COSS on."<sup>4</sup> ATCO Gas provided the analysis in lieu of a COSS.

8. In Attachment 1, ATCO Gas described the methodology for its analysis. The 2014 actual costs for its main capital and operating and maintenance (O&M) functions reported in its 2014 annual Rule 005<sup>5</sup> filing were allocated to the rate groups based on the methodologies agreed to in the negotiated settlement. The methodology was applied to 2014 actual costs for the five largest capital distribution functions and the three largest O&M functions (excluding transmission). ATCO Gas submitted that these functions comprise 87 per cent of ATCO Gas's total utility revenue reported under Rule 005 and the results of the analysis are appropriate for the comparison of rates.

## 3 Commission findings

9. ATCO Gas's application relates to part of Direction 11 from Decision 2010-291. The complete direction, as quoted above, includes informational and analytical requirements to be addressed in future Phase II filings.

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<sup>4</sup> Exhibit 21130-X0001, application cover letter, page 1.

<sup>5</sup> Rule 005: *Annual Reporting Requirements of Financial and Operational Results*.

10. In Decision 2013-035,<sup>6</sup> which dealt with ATCO Gas's 2011-2012 GRA Phase II application, the Commission found that directions 1, 2, 8, 9, 10 and 11 from Decision 2010-291 were outstanding. The Commission stated:

The Commission confirms ATCO Gas's interpretation phrase [sic] that the phrase "next GRA Phase II" means the first Phase II proceeding after the expiration of the settlement period. The Commission accepts ATCO Gas's reasoning for waiting until the settlement period expires. The Commission acknowledges that ATCO Gas intends to comply with each of these directions prior to December 31, 2015 with a comprehensive report on its views on any changes, modifications or amendments required from the currently approved COSS. Although the Commission continues to be of the view that there may be merit in including a COSS with the report, the Commission considers that directions 1, 2, 8, 9, 10 and 11 remain outstanding.<sup>7</sup>

11. Direction 11 consists of two components. The first component is to evaluate the changes to cost allocation and rate design in light of the objectives, goals and benefits they were designed to achieve. The second component is to identify any undue cross-subsidizations that may be occurring. Both components were to be complied with prior to December 31, 2015.

12. The first component of Direction 11, to evaluate the changes to cost allocation and rate design in light of the objectives, goals and benefits they were designed to achieve, has not been addressed in the current application. The second component of Direction 11, which is to identify any undue cross-subsidizations, has been partially addressed using a simplified methodology as a proxy for a COSS.

13. The Commission acknowledges the unusual circumstances of this application. The directions in Decision 2010-291 were issued when ATCO Gas was under cost-of-service regulation and before the Commission transitioned to PBR for distribution utilities. A COSS was not filed in the current proceeding; the terms of the negotiated settlement were relied on instead.

14. ATCO Gas noted in its application that "timing and incorporation of results arising from Phase II proceedings" is on the issues list to be addressed in Proceeding 20414, Next Generation PBR Plans. ATCO Gas submitted that matters related to how changes to cost allocation and rate design are to be implemented during the PBR term should be discussed in that proceeding. The Commission considers that a Phase II proceeding need not necessarily include a new COSS, but may apply existing cost allocations and rate design to new data, as was done in the proceeding resulting in Decision 2013-035. Further, the inclusion of this topic on the issues list under Proceeding 20414 will not ensure compliance with the outstanding directions from Decision 2010-291, as referenced in Decision 2013-035.

15. ATCO Gas was required by Direction 11 to submit an application to comply with that direction by December 31, 2015. In filing this application ATCO Gas has complied with the deadline date with respect to Direction 11. However, as referred to in the previous paragraphs, the Commission finds that the application filed does not fully comply with Direction 11 from Decision 2010-291 because the informational and analytical requirements of the direction have not been met. Based on the preceding analysis, further compliance with Direction 11 is required in ATCO Gas's next Phase II application. Further, directions 1, 2, 8, 9 and 10 from Decision

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<sup>6</sup> Decision 2013-035: ATCO Gas (A Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase II, Proceeding 1912, Application 1608495-1, February 14, 2013.

<sup>7</sup> Decision 2013-035, Appendix 3, ATCO Gas's responses to outstanding Commission directions.

2010-291 were not addressed in ATCO Gas's application. As stated in Decision 2013-035, quoted above in paragraph 10, these directions were also to have been complied with by December 31, 2015.

16. Given that directions from Decision 2010-291 and Decision 2013-035 remain outstanding, the Commission directs ATCO Gas to file, in its next Phase II application, its compliance with all outstanding directions from Decision 2010-291, including directions 1, 2, 8, 9, 10 and 11 and any outstanding directions in Decision 2013-035.

17. The most recent ATCO Gas COSS that was fully tested by the Commission or its predecessor was filed in August 2006.<sup>8</sup> More recently, ATCO Gas filed a COSS in March 2009<sup>9</sup> which was accepted through negotiated settlement and, in May 2012 it filed a Phase II application<sup>10</sup> relying on the cost allocations and rate design approved in Decision 2010-291. Given the passage of time since the last full testing of ATCO Gas's COSS by the Commission or its predecessor, the Commission considers that circumstances may have changed due to the possible impacts of PBR and changes to the business environment and business practices. Accordingly, the Commission directs ATCO Gas, before, or simultaneous with, its next Phase II application, to prepare and file a comprehensive COSS.

18. If ATCO Gas identifies any issues related to cost allocations or rate design in its responses to the outstanding directions, the Commission directs ATCO Gas to provide an explanation of how the proposed COSS methodology will address the issues identified and how the proposed methodology will achieve the objectives, goals and benefits referenced in Direction 11 of Decision 2010-291.

#### **4 Order**

19. It is hereby ordered that:

- (1) ATCO Gas and Pipelines Ltd. shall file, as part of its next Phase II application, its compliance with Direction 11 of Decision 2010-291, and its compliance with any other outstanding directions from Decision 2010-291 and Decision 2013-035.

Dated on January 28, 2016.

#### **Alberta Utilities Commission**

*(original signed by)*

Kay Holgate  
Commission Member

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<sup>8</sup> Decision 2007-026: ATCO Gas 2003-2004 General Rate Application Phase II Cost of Service Study Methodology and Rate Design and 2005-2007 General Rate Application Phase II Application No. 1475249, April 26, 2007.

<sup>9</sup> Decision 2010-291.

<sup>10</sup> Decision 2013-035.



**Appendix 1 – Proceeding participants**

<b>Name of organization (abbreviation)</b> <b>Company name of counsel or representative</b>
ATCO Gas and Pipelines Ltd. (ATCO Gas)
The City of Calgary McLennan Ross, Barristers & Solicitors

Alberta Utilities Commission
Commission panel K. Holgate Commission Member
Commission staff A. Sabo (Commission counsel) P. Howard B. Whyte P. Genderka

## Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. Given that directions from Decision 2010-291 and Decision 2013-035 remain outstanding, the Commission directs ATCO Gas to file, in its next Phase II application, its compliance with all outstanding directions from Decision 2010-291, including directions 1, 2, 8, 9, 10 and 11 and any outstanding directions in Decision 2013-035. .... Paragraph 16
2. The most recent ATCO Gas COSS that was fully tested by the Commission or its predecessor was filed in August 2006. More recently, ATCO Gas filed a COSS in March 2009 which was accepted through negotiated settlement and, in May 2012 it filed a Phase II application relying on the cost allocations and rate design approved in Decision 2010-291. Given the passage of time since the last full testing of ATCO Gas’s COSS by the Commission or its predecessor, the Commission considers that circumstances may have changed due to the possible impacts of PBR and changes to the business environment and business practices. Accordingly, the Commission directs ATCO Gas, before, or simultaneous with, its next Phase II application, to prepare and file a comprehensive COSS. .... Paragraph 17
3. If ATCO Gas identifies any issues related to cost allocations or rate design in its responses to the outstanding directions, the Commission directs ATCO Gas to provide an explanation of how the proposed COSS methodology will address the issues identified and how the proposed methodology will achieve the objectives, goals and benefits referenced in Direction 11 of Decision 2010-291. .... Paragraph 18