Alberta Utilities Commission

ATCO Pipelines

2015-2016 General Rate Application

February 29, 2016

Alberta Utilities Commission
Decision 3577-D01-2016
ATCO Pipelines
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Proceeding 3577

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1 Introduction

1. On December 15, 2014, ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., filed an application with the Alberta Utilities Commission requesting approval of its 2015-2016 general rate application (GRA). ATCO Pipelines is requesting approval from the Commission for its forecast revenue requirement of $214,728,000 for 2015 and $250,362,000 for 2016. The revenue requirement approved by the Commission will be collected from NOVA Gas Transmission Ltd. (NGTL), as per the terms of integration between the two systems. ATCO Pipelines is also seeking the Commission's approval of ATCO Pipelines':

- forecast opening balances for plant, property and equipment, as at January 1, 2015
- continued use of deferrals and placeholders
- proposed depreciation rate changes
- proposed settlement of certain regulatory deferral accounts

2. On June 22, 2015, ATCO Pipelines filed an updated application revising its forecast revenue requirements for 2015 and 2016, as follows:

Table 1. 2015 and 2016 revenue requirement

2015 revenue requirement	($000)
As filed, December 15, 2104	214,728
Reduction	(4,495)
As revised, June 22, 2015	210,233
2016 revenue requirement	
As filed, December 15, 2104	250,362
Reduction	(4,890)
As revised, June 22, 2015	245,472

3. ATCO Pipelines explained that the reduction to its revenue requirements resulted from:

(1) Decision 2191-D01-2015,[1] 2013 Generic Cost of Capital (GCOC) issued on March 23, 2015 reduced ATCO Pipelines equity ratio from 38 per cent to 37 per cent and the return on equity to 8.30 per cent from 8.75 per cent for 2015 resulting in a forecast revenue

[1] Decision 2191-D01-2015: 2013 Generic Cost of Capital, Proceeding 2191, Application 1608918-1, March 23, 2015.

requirement reduction of $3.357 million in 2015 and $4.097 million in 2016 when applying interim placeholders consistent with the decision.

(2) As indicated in ATCO Pipelines' letter to the Commission dated June 11, 2015, ATCO Pipelines reduced its forecast 2015 and 2016 Urban Pipeline Replacement (UPR) capital expenditures by five per cent to reflect the impact of recent construction costs re-bids. The resulting impact to ATCO Pipelines forecast revenue requirement is a reduction of $238,000 in 2015 and $1.029 million in 2016.

(3) ATCO Pipelines applied reductions to revenue requirement of $304,000 in 2015 and $761,000 in 2016 because the House Mountain project was denied by the Commission in Decision 19756-D01-2015,[2] issued February 19, 2015.

(4) ATCO Pipelines updated its opening rate base to reflect 2014 actuals, which resulted in an $877,000 reduction in 2015 and an increase of $400,000 in 2016. Main drivers of the changes were a higher capital program than originally estimated to the end of 2014 and timing of project in-service dates that were originally forecast to be in service by the end of 2014 but went into service in the beginning of 2015 (Shepard Energy Centre, Sarcee Trail and AC mitigation).

(5) ATCO Pipelines revised its depreciation expense forecast for 2015 and 2016 to reflect corrections identified in response to AP-AUC-2015FEB03-104 and AP-AUC-2015FEB03-107, which resulted in an increase to forecast revenue requirement of $342,000 in 2015 and $463,000 in 2016.

(6) ATCO Pipelines revised its income tax expense forecast for 2015 and 2016 to reflect the Alberta government's recent announcement of its decision to increase the corporate provincial tax rate to 12 per cent effective July 1, 2015, resulting in an effective tax rate of 11 per cent for 2015 and 12 per cent for 2016. The impact of this adjustment on ATCO Pipelines' 2015-2016 revenue requirement is a net forecast revenue requirement reduction of $61,000 in 2015 and an increase of $134,000 in 2016.[3]

Process

4. The Commission issued notice of the application on December 17, 2014. In response to the notice, statements of intent to participate were filed by the following parties:

- The Office of the Utilities Consumer Advocate (UCA)
- The City of Calgary
- NGTL
- Nexen Energy ULC
- Canadian Association of Petroleum Producers (CAPP)
- Consumers' Coalition of Alberta (CCA)
- Cenovus Energy Inc.
- Encana Corporation

[2] Decision 19756-D01-2015: ATCO Gas and Pipelines Ltd. (South), Request for Technical Approval to Insert Composite Pipe into Existing House Mountain Transmission Pipeline, Proceeding 19756, Application 1611130-1, February 19, 2015.

[3] Exhibit 3577-X0184, ATCO Pipelines updated application, letter to AUC, page 7 of 9.

5. In a letter dated January 16, 2015, the Commission set the process schedule for consideration of the application.

6. On February 18, 2015, ATCO Pipelines filed a submission with the Commission requesting an extension to the filing of responses to information requests (IRs) from February 19, 2015 to March 20, 2015. ATCO Pipelines explained that it required the extension so that it could adequately respond to the large volume of complex IRs.

7. Given the volume of IRs filed, the Commission approved ATCO Pipelines' requested extension, and revised the schedule to the following:

Process step	**Deadline date**	**Revised deadline date**
IR responses from ATCO Pipelines	February 19, 2015	March 20, 2015
Intervener evidence	March 5, 2015	April 1, 2015
IRs to interveners	March 19, 2015	April 15, 2015
IR responses from interveners	April 2, 2015	April 29, 2015
Rebuttal evidence	April 13, 2015	May 11, 2015

8. On March 20, 2015, ATCO Pipelines filed responses to IRs from interveners and the Alberta Utilities Commission. Pursuant to sections 9 and 13 of Rule 001: *Rules of Practice*, ATCO Pipelines also requested confidential treatment for IR responses pertaining to:

- documentation from Wipro Solutions Canada Limited (Wipro)
- a report prepared by KPMG (the KPMG report) and specifically the details related to the supporting price validation
- the master services agreement (MSA) between the ATCO Utilities and Wipro
- information related to the Northeast Calgary Connector (a component of the UPR project)

9. On March 25, 2015, the Commission received submissions on the motion for confidential treatment and further process for the proceeding from CAPP, the CCA, Calgary and the UCA. In a March 26, 2015 letter, ATCO Pipelines responded to intervener submissions.

10. On March 30, 2015, the UCA submitted an additional motion to the Commission pursuant to Section 9 of Rule 001 and Section 8 of the *Alberta Utilities Commission Act*, SA 2007, c. A-37.2, for an order that ATCO Pipelines provide full and complete responses to the IRs of the UCA.

11. On April 2, 2015, CAPP, the CCA, Calgary and the UCA provided their comments on the motion for confidential treatment of information responses. ATCO Pipelines provided its reply comments on the motion on April 9, 2015. The Commission also received submissions from parties with respect to the preferred timing of a hearing, second round of IRs, and the sequence for dealing with any motions for better responses to IRs.

12. In a letter dated April 30, 2015, the Commission granted ATCO Pipelines' request for confidentiality and established a second round of IRs.

13. The Commission established the remainder of the process schedule, as follows:

Process step	Revised dates
Filing of confidential undertakings	May 6, 2015
Filing of confidential information by ATCO Pipelines to parties that have filed undertakings	May 11, 2015
Round 2 IRs to ATCO Pipelines	May 21, 2015
ATCO Pipelines responses to Round 2 IRs	June 2, 2015
Intervener motions (if any) on ATCO Pipelines' IRs for further and better responses	June 8, 2015
Intervener evidence	June 15, 2015
IRs on intervener evidence	June 29, 2015
Responses to IRs on intervener evidence	July 10, 2015
Rebuttal evidence	July 20, 2015

14. The Commission determined that an oral hearing would take place in Calgary starting August 10, 2015, with completion tentatively scheduled for August 14, 2015.

15. On May 27, 2015, ATCO Pipelines filed a letter with the Commission requesting an extension to the deadline for filing responses to Round 2 IRs from June 2, 2015 to July 3, 2015. ATCO Pipelines explained that the extension was required because of the volume and complexity of IRs, particularly with respect to information technology (IT) issues.

16. On May 29, 2015, Calgary expressed concern with respect to the regulatory schedule and requested that the process schedule be revised to allow a three-week period for intervener evidence. Alternatively, Calgary suggested that the Commission establish a separate proceeding to examine the prices and term of IT services under the Wipro MSA. Calgary stated that a common proceeding would be more efficient because the same IT issues would also be subject to examination in Proceeding 20272, ATCO Electric Ltd.'s (ATCO Electric Transmission) 2015-2017 general tariff application (GTA).

17. Given the submissions from ATCO Pipelines and Calgary, the Commission, in a letter dated May 29, 2105, suspended the schedule to consider the most effective process to examine IT rates and services with Wipro and set the remainder of the process schedule for this Proceeding 3577.

18. In a letter dated June 2, 2015, the UCA indicated that it would participate in any stand-alone IT proceeding and supported a common hearing on IT pricing. The UCA stated that the existing process schedule did not provide enough time to adequately assess IT matters. Consequently, the UCA submitted that because of ATCO Pipelines' extension request, a new procedural schedule and oral hearing dates were required.

19. In Bulletin 2015-11,[4] issued on June 4, 2015, the Commission initiated an ATCO Utilities' IT common matters proceeding, Proceeding 20514, to examine prices and term of IT services under the MSAs between the ATCO Utilities (ATCO Pipelines and ATCO Electric

[4] Bulletin 2015-11, Initiating the ATCO Utilities information technology (IT) common matters proceeding to examine IT costs related to the master services agreements (MSA) between the ATCO Utilities and Wipro Solutions Canada Limited (Wipro), June 4, 2015.

Transmission) and Wipro. Proceeding 20514 was initiated to more effectively address IT matters raised in both Proceeding 3577 and Proceeding 20272, ATCO Electric Transmission's 2015-2017 GTA. In order to facilitate an orderly transfer of relevant information between the proceedings, ATCO Pipelines and ATCO Electric Transmission were directed to refile all IT costs, MSAs (including all responses to IRs related to these issues and any placeholders broken out by operation and maintenance costs), capital expenditures, revenue requirement impact, and forecast IT volumes for the applicable test years.

20. In a letter dated June 5, 2015, the Commission noted that due to the creation of the common matters proceeding for IT costs, a large portion of the responses to Round 2 IRs that related to ATCO Pipelines' May 27, 2015 extension request would now be examined in Proceeding 20514. The Commission recognized that the remainder Round 2 IRs in Proceeding 3577 were also extensive and an extension to filing responses to Round 2 IRs was warranted to allow ATCO Pipelines to respond to Round 2 IRs. The Commission granted ATCO Pipelines an extension for filing responses to Round 2 IRs to June 16, 2015, and issued the following schedule:

Process step	**Deadline dates**
ATCO Pipelines responses to Round 2 IRs	June 16, 2015
Intervener motions for further and better responses to IRs from ATCO Pipelines	June 23, 2015
Intervener evidence	June 30, 2015
IRs on intervener evidence	July 14, 2015
Responses to IRs on intervener evidence	July 28, 2015
Rebuttal evidence	August 5, 2015
Oral hearing	August 10-14, 2015

21. In its June 5, 2015 letter, the Commission requested that interested parties to Proceeding 3577 file submissions on the reasonableness of the existing hearing dates, the possibility of proceeding with the remainder of the application through a written process, or any other procedural concerns by June 11, 2015.

22. By way of a June 15, 2015 letter, the Commission determined upon review of the comments from interested parties that it would be premature to change the existing schedule and oral hearing. The Commission also set a deadline date of June 23, 2015, for interveners to submit motions on further and better responses to IRs from ATCO Pipelines.

23. On June 22, 2015, ATCO Pipelines filed an update to its application.

24. On June 23, 2015, the Commission received motions from the UCA, Calgary and CAPP. These motions requested that the Commission direct ATCO Pipelines to provide further and better responses to specific information requests. The UCA further requested that the Commission suspend the current process schedule pending resolution of its motion in light of the deadline for filing intervener evidence of June 30, 2015.

25. In a letter dated June 26, 2015, the Commission established a schedule to process the motions filed by interveners and the additional requests of Calgary for filing additional information on the public record of this proceeding.

26. On July 30, 2015, the Commission issued its ruling on the motions. ATCO Pipelines was directed to file further responses to IRs, in accordance with this ruling.

27. The Commission established the following schedule for the remainder of this proceeding and set dates for an oral hearing, as follows:

Process step	**Deadline**
Filing of further responses, including confidential responses, from ATCO Pipelines	August 10, 2015
Intervener evidence	August 24, 2015
IRs on intervener evidence	September 3, 2015
Response to IRs on intervener evidence	September 18, 2015
ATCO Pipelines rebuttal evidence	October 5, 2015
Oral hearing commences – Calgary	October 13, 2015

28. On October 7, 2015, the Commission received a motion[5] from the UCA requesting that the Commission either:

(a) strike the portion of ATCO Pipelines rebuttal evidence which deals with the domestic *Income Tax Act* obligation as it relates to the applied for licence fee, or in the alternative,

(b) provide parties with sufficient time to consider the new material, obtain advice, retain experts, potentially tender responding evidence and prepare cross-examination for the oral hearing on the new material. The UCA submitted that this may include the option of rescheduling a portion of the hearing or making use of another proceeding where the licence fee is at issue.

29. The UCA objected to the portion of ATCO Pipelines' rebuttal evidence which dealt with the domestic *Income Tax Act* obligations on the basis that this constituted new material and that the material was previously requested in IRs and was not provided.

30. On October 9, 2015, the Commission released its ruling on the UCA's motion stating that certain portions of ATCO Pipelines' rebuttal evidence introduced new evidence on potential domestic tax obligations that may require ATCO Ltd. to charge ATCO Pipelines a licence fee. ATCO Pipelines also introduced new evidence on its interpretation of various sections of the *Income Tax Act* relevant to ATCO subsidiaries in Canada. The Commission found that a separate process was required to allow interveners adequate time to consider the new material and to assess whether additional intervener evidence was required, and for ATCO Pipelines to properly rebut such further evidence. Accordingly, the Commission removed the licence fee issue from Proceeding 3577, and assigned a placeholder of zero dollars to be included in ATCO Pipelines' revenue requirement until a determination is made on the recovery of licence fees.

31. In its ruling, the Commission recognized that ATCO Electric Transmission had proposed a licence fee in its 2015-2017 GTA in Proceeding 20272. As a result, the Commission requested further submissions from parties on the record of this proceeding, by October 22, 2015, on the most effective process and timing to consider the issue of licencing fees.

5 Exhibit 3577-X0269, UCA motion re striking new tax evidence.

32. The oral hearing for ATCO Pipelines 2015-2016 GRA was held between October 13, 2015 and October 16, 2015. The Commission set the deadlines for argument and reply argument of November 13, 2015, and November 27, 2015, respectively, which allowed time for the filing of outstanding undertakings and any related interrogatory process.

33. In an October 28, 2015 letter, the Commission reviewed the submissions from parties and considered that the most efficient process to address licence fee costs would be to hold a common licence fee proceeding, which would include an oral hearing. ATCO Electric Transmission and ATCO Pipelines were directed to file a joint licence fee application with the Commission by November 16, 2015, including all evidence and IR responses from ATCO Electric Transmission, ATCO Pipelines and interveners, which were on the record of proceedings 3577 and 20272.

34. In a November 26, 2015 letter, the CCA requested that the Commission suspend the process schedule to allow it to assess any potential impact on the revenue requirement arising from an announcement of recent employee reductions from the ATCO Group.

35. On November 27, 2015, the Commission issued a ruling denying the CCA's request and stated:

> 3. Given the timing of the close of record of this proceeding and the uncertain effect of the ATCO Group's recent employee reductions on ATCO Pipelines, ATCO Pipelines is directed in its compliance filing to the Commission's pending decision on Proceeding 3577, to clearly identify the impact on FTEs [full-time equivalents] and revenue requirement for the 2015 and 2016 test years because of the recently announced reductions to the ATCO Group workforce. Accordingly, the Commission will establish a placeholder for FTEs and their related costs due to the recent employee reductions to ATCO Group, and these costs will be addressed in ATCO Pipelines' compliance filing.[6]

36. The UCA submitted a motion dated November 30, 2015, requesting the Commission expand placeholder treatment to include all other cost items beyond FTEs because of the recent announcement of ATCO Group employee reductions.

37. On December 2, 2015, the Commission set out a process regarding the UCA's request. In a December 10, 2015 ruling, the Commission denied the UCA's request because the Commission did not consider that an expansion of the placeholders was required. The Commission requested ATCO Pipelines "… to clearly identify the impact on FTEs and revenue requirement for the 2015 and 2016 test years because of the recently announced reductions to the ATCO Group workforce."[7] The placeholder for FTEs would allow an opportunity for parties to assess the impact of the workforce reductions and revenue requirement impact, while avoiding a rehearing of ATCO Pipelines' forecast costs that were applied for on a prospective basis for broader issues of in-scope/out-of-scope labour, in-line inspection (ILI) work and forecast capital projects.

38. The Commission considers that the record for this proceeding closed on December 10, 2015.

[6] Exhibit 3577-X0340, Commission's ruling letter, October 27, 2015, paragraph 3.
[7] Exhibit 3577-X0353, Commission's ruling letter, December 10, paragraph 16.

39. In reaching the determinations contained within this decision, the Commission considered all relevant materials comprising the record of this proceeding, including the evidence and argument provided by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

2 Background

40. On December 4, 2013, the Commission issued Decision 2013-430[8] with regard to ATCO Pipelines' 2013-2014 GRA and directed ATCO Pipelines to submit a compliance filing no later than January 22, 2014.

41. ATCO Pipelines filed an application with the Commission on January 22, 2014, requesting approval its 2013-2014 final revenue requirements in its compliance filing to Decision 2013-430.

42. On June 10. 2014, the Commission issued Decision 2014-162,[9] which approved ATCO Pipelines' final revenue requirements for 2013 and 2014 of $182.9 million and $192.6 million, respectively.

43. On March 24, 2015, in Decision 3586-D01-2015,[10] the Commission approved ATCO Pipelines 2015 interim revenue requirement at 60 per cent of ATCO Pipelines' 2015 forecast revenue requirement increase, which resulted in a monthly rate of $17,157,800 to be collected, effective April 1, 2015. The interim monthly rate remains in effect until another interim rate and/or final rate is approved by the Commission.

3 Discussion of issues

44. Decision 3577-D01-2016 includes a discussion of the contentious cost items forecast in ATCO Pipelines GRA. The Commission has reviewed all remaining forecast costs that were not identified as contentious cost items in the decision and is satisfied that they are reasonable. Any forecast costs, not specifically addressed in the decision, are approved as filed subject to any specific findings contained in this decision.

4 Rate base

45. ATCO Pipelines updated its application on June 22, 2015 with its revised revenue requirements and tables outlining the rate base, plant in service and capital expenditures. ATCO Pipelines requested approval of its forecast revenue requirement of $210,233,000 for 2015 and

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[8] Decision 2013-430: ATCO Pipelines, 2013-2014 General Rate Application, Proceeding 2322, Application 1609158-1, December 4, 2013.

[9] Decision 2014-162: ATCO Pipelines, 2013-2014 Revenue Requirement, Compliance Filing to Decision 2013-430, Proceeding 3037, Application 1610269-1, June 10, 2014.

[10] Decision 3586-D01-2015: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., 2015 Interim Revenue Requirement, Proceeding 3586, Application 1611091-1, March 24, 2015.

$245,472,000 for 2016. The revenue requirement was based on the rate base provided in the following table:

Table 2. ATCO Pipelines rate base[11]

		2013 actual	2014 estimate	2015 forecast	2016 forecast
		($000)			
01	Mid-year plant in service	843,187	946,052	1,116,419	1,375,186
02	Necessary working capital	28,006	25,421	27,443	29,385
03	Rate base	871,193	971,473	1,143,862	1,404,571

46. The mid-year plant in service was provided in the following table:

Table 3. ATCO Pipelines plant in service at December 31[12]

Line		2013 actual	2014 estimate	2014 adjusted	2015 forecast	2016 forecast
		($000)				
01	Property plant and equipment	1,620,627	1,782,282	1,783,060	2,072,037	2,294,363
02	Less: work in progress	79,642	54,822	54,822	81,541	18,684
03	Update - UPR adjustment		(2,407)	(252)		
04	Update - House Mountain adjustment		(500)	(500)		
05	Update - opening balance true-up			38,945		
06	Accumulated depreciation	567,384	589,453	585,551	616,894	652,201
07	Net contributions	92,788	127,217	121,685	125,728	123,639
08	Current year-end balance	880,813	1,011,290	982,557	1,250,281	1,500,091
09	Previous year-end balance	805,561	880,813		982,557	1,250,281
10	TOTAL	1,686,374	1,892,103		2,232,838	2,750,372
11	Mid-year plant in service	843,187	946,052		1,116,419	1,375,186

4.1 Opening rate base

47. In its June 22, 2015 update,[13] ATCO Pipelines updated its opening rate base for actuals to the end of 2014. The resulting impact on the 2015-2016 forecast revenue requirement is:

11 Exhibit 3577-X0182, ATCO Pipelines updated application, financial schedules, Schedule 2.1-1.
12 Exhibit 3577-X0182, ATCO Pipelines updated application, financial schedules, Schedule 2.2-1.
13 Exhibit 3577-X0184, ATCO Pipelines updated application, letter to AUC, page 6 of 9.

Table 4. Updated opening rate base

2015-2016 revenue requirement Adjustment #4 – 2015 opening rate base	2015 forecast	2016 forecast
	($000)	
Dec 31, 2014 net plant, property and equipment adjustment[1]	5,345	
Dec 31, 2014 work in progress timing adjustment[2]	(34,078)	-
Opening rate base adjustment	(28,733)	5,345
Dec 31, 2014 work in progress timing adjustment[2]	34,078	-
Closing rate base adjustment	5,345	5,345
Revised mid-year rate base	(11,694)	5,345
Rate of return	6.43%	6.43%
Return on rate base	(752)	344
Impact on income tax expense	(125)	56
Net revenue requirement impact	(877)	400

1 Higher capital program than originally estimated to the end of 2014.
2 Mainly due to timing of project in-service dates, consisting primarily of Shepard Energy Centre, Sarcee Trail and AC Mitigation. These projects were originally forecast to be in service by the end of 2014, but were put in service in early 2015.

Commission findings

48. The Commissioned reviewed the variances between ATCO Pipelines' 2014 actual and approved rate base and is satisfied with the explanations provided by ATCO Pipelines through information responses to IRs. However, the Commission has compared the original 2014 forecast opening property, plant and equipment filed on December 17, 2015,[14] with the corresponding table filed in its June 22, 2015 application update, and it does not appear that the financial schedules align with the adjustment to opening rate base noted above, in Table 4. ATCO Pipelines is therefore directed, in its compliance filing, to review its June 22, 2015 opening rate base adjustments, and all other adjustments it provided in its application update at Exhibit 3577-X0184, and provide the Commission with confirmation that ATCO Pipelines' financial schedules are consistent with revised information reflected in the June 22, 2015 update. ATCO Pipelines is directed to reflect any revisions required to its financial schedules in the compliance filing to this decision.

4.2 Capital expenditures

49. ATCO Pipelines provided the following table showing forecast capital expenditures for the test years and actuals for 2013 and estimates for 2014:

[14] Exhibit 0010.02.ATCOPIPE-3577, ATCO Pipelines financial schedules.

Table 5. Total capital expenditures by category[15]

	2013 actual	2014 estimate	2015 forecast	2016 forecast
	($000)			
UPR	454	13,687	198,987	138,000
Growth	67,491	73,938	34,822	45,501
Improvements	38,453	52,693	57,474	48,079
Replacements	28,480	26,791	13,692	13,018
Relocations	8,058	11,284	1,120	1,120
IT projects	2,954	3,904	3,899	4,030
Total	145,890	182,297	309,994	249,748
Contributions	24,906	14,975	1,200	1,120

50. Specifically, in its updated application, ATCO Pipelines revised its forecast UPR project capital expenditures to $198,987,000 in 2015 and $138,000,000 in 2016, and removed the House Mountain project from the improvements category of capital expenditures.

51. ATCO Pipelines explained that the growth capital expenditures were driven by new NGTL FT-D2 industrial delivery service, which is largely in the Alberta Industrial Heartland area and new FT-D3 utility load growth of the local distribution companies in ATCO Pipelines' footprint driving the need for pipeline facilities. Alberta System Upgrades, the need for which was identified as part of the NGTL planning process for the integrated Alberta System, was mainly due to the Inland Loop Growth project requested by NGTL in the Edmonton area market.

52. The revised expenditures ATCO Pipelines forecast for improvements for 2015 and 2016 are focused on three main areas in its provision of safe, reliable service:

- improvements for pipeline integrity, primarily upgrades to facilitate ILI on existing pipelines
- facility and Salt Cavern gas storage upgrades
- buildings and other improvements

53. The forecast improvement capital expenditures for pipeline integrity related initiatives were outlined in Table 2.3.3-1 and represent nearly 50 per cent of the total improvement forecast in 2015 and over 60 per cent of the forecast in 2016.

54. ATCO Pipelines explained that replacement projects were largely driven by the results of pipeline inspections and directly reflected the value of ATCO Pipelines' pipeline integrity program.

55. The relocation projects are driven by the level of municipal and provincial road authority activity for new roads and highways and other third-party development. Third-party development results in requests for ATCO Pipelines to relocate its facilities and are forecast to be 100 per cent offset by contributions.

56. ATCO Pipelines noted that the IT expenditures to maintain, support and enhance information systems necessary in the provision of safe, reliable service and to facilitate the integration of these systems were included under its asset management system

15 Exhibit 3577-X0179, ATCO Pipelines updated application, Table 2.3-1, Section 2.3, page 1 of 2.

4.3 Business cases

57. The interveners took issue with the quality of many of ATCO Pipelines' business cases citing deficiencies including the lack of cost-benefit analysis and explanations of need and timing. Both Calgary and the UCA proposed changes to the existing criteria. The concerns raised by the interveners and the responses from ATCO Pipelines with respect to these issues will be reviewed in this section.

58. The UCA adopted Mr. Bell's recommendation that ATCO Pipelines should address the following three issues in the justification of forecast capital project costs for inclusion in rates:

(i) the utility should demonstrate that, in the absence of the proposed capital expenditures, deterioration in service quality and safety would result;
(ii) the utility should demonstrate why the project timing is optimal, and that the project could not be deferred to a future GRA;
(iii) the utility should provide a comparison of the project costs of similar projects over the last five years to the forecasts for each project.[16]

59. The UCA noted that Mr. Bell had based this recommendation on criteria developed in the context of performance-based regulation (PBR).[17] Although "these criteria were articulated in PBR and the associated capital tracker context, most of these criteria apply equally in a cost of service context." Mr. Bell asserted that "applying these recommended criteria would: provide transparency and consistency to how the Commission considers capital projects, and "reflect practical approaches and longstanding principles."[18]

60. The UCA referred to Decision 3539-D01-2015,[19] wherein the Commission questioned whether imposing additional requirements for business cases could further add to the volume and complexity of the utility's proceedings. The UCA also took note of ATCO Pipelines' rebuttal evidence where ATCO Pipelines claimed that the adoption of Mr. Bell's recommended criteria in the cost-of-service context "would require extra costs as ATCO Pipelines would be required to staff up to provide these type of more extensive analyses."[20]

61. The UCA argued that adding Mr. Bell's criteria to ATCO Pipelines' business cases was simply a common sense way of getting key relevant information on the record at an early stage in the proceeding resulting in better, not more, effort and potentially increasing the efficiency of the process. Since ATCO Pipelines is in the best position to provide the information relating to these criteria, it should be expected to disclose relevant and probative information in its initial application.[21]

62. Mr. Bell's third criterion, he suggested that a comparison of costs of similar projects over the past five years, reflects an internal calculation any business or sophisticated customer

[16] Exhibit 3577-X0224, R. Bell evidence for UCA, Q23/A23, page 19.
[17] Exhibit 3577-X0224, R. Bell evidence for UCA, Q21/A21, page 14, citing paragraph 1092 of Decision 2013-435: Distribution Performance-Based Regulation, 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.
[18] Exhibit 3577-X0333, UCA argument, paragraph 97.
[19] Decision 3539-D01-2015: EPCOR Distribution & Transmission Inc., 2015-2017 Transmission Facility Owner Tariff, Proceeding 3539, Application 1611027-1, October 21, 2015.
[20] Exhibit 3577-X0333, UCA argument, paragraph 102.
[21] Exhibit 3577-X0333. UCA argument, paragraph 103.

undertakes to justify spending. The UCA stated that the current process only discovers this type of context information, if at all, through IRs and cross-examination, and is not an efficient use of resources. As admitted by ATCO Pipelines in cross-examination, that context is useful and helpful to solving problems. Further, Mr. Bell noted in cross-examination that he expected ATCO Pipelines has kept internal records of historical capital expenditures for similar projects as a way of determining whether project costs were reasonable.[22]

63. The UCA considered the capital costs proposed to be included in the revenue requirement for the upgrade to the Exshaw Lime Delivery Station was the "poster child" that justified Mr. Bell's criteria.[23] The UCA pointed out that in its rebuttal evidence ATCO Pipelines stated that, in relation to the Exshaw Lime Delivery Station:

> There are in fact multiple issues that have been identified over a period of time… The result of the ongoing issues is <u>increased risks to the provision of safe, reliable service</u> including pressure control devices, gas metering, line heater reliability, and most recently, inoperable isolation valves… <u>Once the inoperable isolation valves were identified, it was determined appropriate to rectify all issues at the stations in facility upgrades. It is most efficient to complete the upgrades in this manner as opposed to piecemeal replacements to address each issue as it arises</u>.[24] [underlining by UCA]

64. The UCA considered that ATCO Pipelines provided evidence that, in the absence of the proposed facility upgrade, deterioration in service quality and safety would result; and provided information as to why the project should be completed now i.e., due to "inoperable isolation valves." However, ATCO Pipelines did not provide any evidence regarding these inoperable isolation valves until pressed in a second round IR.[25] There had been no mention of the inoperable isolation valves in the business case for the Exshaw upgrade provided in ATCO Pipelines' application. Similarly, ATCO Pipelines acknowledged under cross-examination that there was no mention of isolation valves in response to a UCA first round IR.[26]

65. During cross examination by the UCA's counsel of the ATCO Pipelines panel, ATCO Pipelines' witness agreed that the isolation valve issue triggered a "… critical mass of work that made it efficient to proceed [with the Exshaw upgrade] now."[27] This critical mass of information is the sort of thing sought by Mr. Bell's second criterion about optimal timing. ATCO Pipelines explained what had changed recently to justify moving forward, with a longstanding project, now.[28]

66. The information that was eventually disclosed satisfied the UCA regarding the need for upgrades at the Exshaw plant and at the Edson OSB Delivery Station.[29]

67. The UCA argued that the addition of the three criteria to ATCO Pipelines' business cases would result in a better and more efficient process. Rather than adding cost, volume or complexity to proceedings, as ATCO Pipelines had suggested, the UCA submitted that the additional information provided under these criteria would help address, head on, the issues that

22 Exhibit 3577-X0333, UCA argument, paragraphs 104 and 111.
23 Exhibit 3577-X0333, UCA argument, paragraph 105.
24 Exhibit 3577-X0265, ATCO Pipelines rebuttal evidence, paragraph 35.
25 Exhibit 3577-X0279, AP-UCA-2015FEB03-022(b).
26 Exhibit 3577-X0333, UCA argument, paragraphs 107-109.
27 Transcript, Volume 3, page 487, lines 4-7.
28 Exhibit 3577-X0333, UCA argument, paragraph 110.
29 Exhibit 3577-X0333, UCA argument, paragraph 110.

ATCO Pipelines' business cases will actually turn on, at an early stage. The UCA maintained that driving ATCO Pipelines to "cut to the chase" when justifying projects may simplify and streamline proceedings.[30] The UCA requested that the Commission direct ATCO Pipelines to include Mr. Bell's three additional criteria in its business cases in its next GRA.

68. Calgary argued that ATCO Pipelines had not followed "previous Commission's business case directives or even internal ATCO/ATCO Pipelines business case processes as prescribed in the Wipro MSA, and, therefore, ATCO Pipelines had failed to discharge its onus and recommended that the asset management initiative and Maximo Phase 2 and Hyperion IT projects be disallowed by the Commission."[31]

69. Calgary submitted that it did not make sense for the Commission to allow ATCO Pipelines to follow a lower standard for its regulatory business cases than ATCO or ATCO Pipelines requires from Wipro, its IT supplier, or which ATCO requires internally.

70. Calgary outlined previous Commission business case directives in its evidence and provided its view on the Commission's business case requirements, as follows:[32]

> The Commission's requires applicants to provide certain information for all major capital projects, in sufficient detail, in rate applications. The Commission's requirements for Business Cases include the following four items:
> i) a detailed justification including demand, energy and supply information;
> ii) a breakdown of the project cost;
> iii) the options considered and their economics; and
> iv) the need for the project.

71. Calgary argued that the Commission regularly considers the benefits, if any, to customers that would result from approving costs applied for by a utility. Proposed projects required justification through a cost-benefit analysis and the perceived benefits to customers should, at least, exceed the costs being passed on to customers. Calgary submitted, "Quite simply, if the costs exceed the benefits, the project should be disallowed."[33]

72. Calgary outlined a cost-benefit analysis in its evidence that would meet the Commission's business case requirements. Also, Calgary noted that a number of Commission decisions highlighted the need for a cost-benefit analysis.[34]

73. Calgary suggested that the Commission disallow the IT capital forecast amounts related to the Geographic Information System (GIS), Pipelines Integrity Management System (PIMS) and Maintenance Management System (MMS) enhancements, due to the absence of business cases.

74. ATCO Pipelines disagreed with both Calgary's and the UCA's arguments that challenged the adequacy of ATCO Pipelines business cases. While Calgary appeared to recognize the traditional criteria applicable to business cases, ATCO Pipelines argued that Calgary placed undue weight on the requirement for a quantitative cost-benefit analysis and incorrectly

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30 Exhibit 3577-X0333, UCA argument, paragraph 118.
31 Exhibit 3577-X0327, Calgary argument, paragraph 44.
32 Exhibit 3577-X0227, Calgary evidence, Q5/A5, page 4 and Exhibit 3577-X0237, CAL-AUC-2015SEP18-002.
33 Exhibit 3577-X0327, Calgary argument, paragraph 47.
34 Exhibit 3577-X0227, Calgary evidence, Q6/A6 and Q7/A7, pages 5-6.

concluded that a business case, including a quantitative cost-benefit analysis, was required. In particular, Calgary argued that ATCO Pipelines did not adequately justify, through a cost/benefit analysis, its forecast costs associated with its International Standard for Organization (ISO) 55001 asset management initiative. With regard to the UCA, the UCA improperly proposed the application of entirely new business case criteria. Both Calgary and the UCA appeared to believe the current, traditional business case criteria for ATCO Pipelines were inadequate.

75. ATCO Pipelines submitted that for two decades it had followed the Commission's criteria for major capital projects, as was explicitly set forth in the Alberta Energy and Utilities Board (EUB or board), predecessor to the AUC, in Decision 2000-9:[35]

> The Board has always required, and continues to require, the following information for all major capital projects:
>
> - a detailed justification including demand, energy, and supply information;
> - a breakdown of the proposed cost;
> - the options considered and their economics; and
> - the need for the project.
>
> The Board will expect the information above, provided in sufficient detail, in all future filings.[36]

76. ATCO Pipelines noted that in its 2013-2014 GRA, the Commission had approved, as filed, 32 capital expenditure business cases. The Commission noted that after reviewing the business cases it found the projects to be warranted and forecast capital expenditures were found to be reasonable.[37]

77. ATCO Pipelines submitted that the UCA's request for the Commission to impose new business case criteria drawn from the PBR regime was procedurally unfair and failed to consider the specific reasons and context underlying the development of those specific criteria. While ATCO Pipelines acknowledged that certain of the criteria for capital tracker business cases are consistent with ATCO Pipelines' business case requirements, criteria (c), (d), (e), (h), (i) and (j) of the PBR criteria ought not to be applied to the business cases in the current proceeding, or at all. ATCO Pipelines noted that the Commission recently concluded a review of its Rule 020: *Rules Respecting Gas Utility Pipelines*, after inviting comments from stakeholders. Rule 020 addresses, *inter alia*, the information required to demonstrate project need, including both abbreviated and complete need assessments. The UCA did not provide comments in that review.

78. ATCO Pipelines submitted that the Commission recently rejected the application of these same PBR based criteria to business cases for EPCOR Distribution & Transmission Inc. in Decision 3539-D01-2015, where the Commission stated:

> 745. Mr. Bell pointed to Decision 2013-435 and the 10 criteria for project assessment under capital tracker treatment. Mr. Bell stated that, while several of the criteria were already subsumed in information provided in business cases under cost of

[35] Decision 2000-9: Canadian Western Natural Gas Company Limited, 1997 Return on Common Equity and Capital Structure, and 1998 General Rate Application – Phase I, Applications 980413 and 982421, Files 1303-1 and 1304 1, March 2, 2000.

[36] Decision 2000-9, page 32.

[37] Decision 2013-430, Section. 4.5.3, pages 20-39.

> service regulation, significant benefit could be gained if the Commission were to direct EDTI in future GTAs to include the following:
>
> - a demonstration that a deterioration in service quality and safety would result if a proposed capital expenditure did not occur
> - a demonstration of why the timing of the proposed capital expenditure is optimal and could not be deferred
> - a comparison of similar projects including variance explanations related to both units and costs-per-unit
>
> …
>
> 752. The recommendations of Mr. Bell would increase capital project filing requirements beyond what is currently required of utilities, outside of the capital tracker proceedings…
>
> …
>
> 754. The Commission is concerned that imposing the additional requirements recommended of Mr. Bell in this case could further add to the volume and complexity of EDTI's GTA proceedings. The Commission is not convinced at this time that the adoption of distribution function capital tracker – type criteria is necessary, given the volume of information on the record of this GTA and the ability of parties to obtain additional specific capital information, should it be required.[38]

79. ATCO Pipelines argued that to apply such criteria without notice and on an "after the fact" basis was a clear violation of the rules of natural justice and procedural fairness. ATCO Pipelines submitted that the PBR criteria were inappropriate for the ATCO Pipelines system, which remained regulated on a cost-of-service model.

80. ATCO Pipelines submitted that imposing the UCA's proposed PBR criteria on ATCO Pipelines would be entirely inconsistent with Decision 3539-D01-2015.

81. Further, the UCA's suggestion that there are no grounds for distinguishing between criteria developed in the PBR context versus those in the GRA context for ATCO Pipelines is contrary to the UCA's position in the past as noted in Decision 2013-435:

> 267. Given that capital trackers were expected to be an exceptional feature of PBR plans, the UCA argued that the level of engineering support for a capital project proposed for capital tracker treatment needs to exceed the level of support for capital projects under cost-of-service regulation in order to demonstrate the need for treatment outside of the I-X mechanism. In this regard, the UCA did not agree with the companies' view that a business case analysis of the type filed for capital projects under cost-of-service regulation is sufficient…[39]

82. ATCO Pipelines submitted Calgary's position represented a direct attack on the business case criteria developed over the years for ATCO Pipelines. Calgary seeks to modify such criteria and its recommendations for disallowances are based on such modifications. ATCO Pipelines considered all of the 60 plus business cases prepared in conjunction with this GRA were in line with the Commission's past requirements.

83. ATCO Pipelines objected to Calgary's attempts to incorporate business case criteria from the Wipro MSA proceeding.[40] ATCO Pipelines claimed that the business case criteria Calgary

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[38] Decision 3539-D01-2015, paragraphs 745, 752 and 754.

[39] Decision 2013-435, paragraph 267.

[40] The ATCO Utilities (ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd.) Information Technology (IT) Common Matters Proceeding, Proceeding 20514.

selected from the Wipro MSA relate to Wipro business case criteria, and they are not and should not, be equated to the traditional business case criteria developed by the Commission for its GRAs. ATCO Pipelines considered that Calgary's emphasis on quantifiable, cost-benefit criteria, was attempting to recraft the Commission's traditional business case criteria for ATCO Pipelines. ATCO Pipelines' counsel cautioned against using the Wipro MSA as a substitute for ATCO Pipelines' traditional business case criteria.[41]

84. ATCO Pipelines argued that both the threshold and level of detail provided in ATCO Pipelines' traditional GRA business case criteria represented a reasonable balance between providing relevant information and the cost, time and effort required to do so. ATCO Pipelines submitted that if the traditional criteria were to be revisited, that it should be done in conjunction with a consideration of all elements of the business cases, including the $500,000 threshold.[42]

85. ATCO Pipelines noted that Calgary considered the Hyperion and Maximo Phase 2 business cases deficient based on its application of its new criteria. ATCO Pipelines argued that these business cases were in the same format and provided the same level of information as the business cases that supported the implementation of IT systems, including Maximo Phase 1, in ATCO Pipelines' last GRA. ATCO Pipelines pointed out that neither the Commission, nor any interested party, found the 2013-2014 GRA business cases deficient. ATCO Pipelines submitted that Calgary was seeking to impose its own interpretation of what constitutes appropriate business case criteria, which is an interpretation at odds with how such criteria, as outlined from Decision 2001-97, have been historically applied.[43]

Commission findings

86. The Commission has considered the positions of the interveners and the applicant regarding changes to the criteria set out in Decision 2000-9, where the EUB found:

> The Board reiterates its concern over the manner in which CWNG provided information to both customers and the Board in this proceeding. Stakeholders of CWNG require sufficient detail in their analyses of projects and expenditures. The Board has always required, and continues to require, the following information for all major capital projects:
>
> - a detailed justification including demand, energy, and supply information;
> - a breakdown of the proposed cost;
> - the options considered and their economics; and
> - the need for the project.
>
> The Board will expect the information above, provided in sufficient detail, in all future filings.[44]

87. The Commission must consider what is satisfactory for ATCO Pipelines' business cases given the criteria set out in Decision 2000-9 and the business cases submitted in this proceeding. The Commission considers that the additional criteria recommended by Mr. Bell as a result of PBR capital tracker criteria should not apply to utilities under cost-of-service regulation, including ATCO Pipelines' current application. This finding is consistent with Decision 3539-

41 Transcript, Volume 2, page 300, line 21 to page 302, line 24.
42 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 137.
43 Exhibit 3577-X0328, ATCO Pipelines argument, paragraph 162.
44 Decision 2000-9, page 32.

D01-2015, EPCOR Distribution & Transmission Inc., 2015-2017 Transmission Facility Owner Tariff, where the Commission stated at paragraphs 752-754:

> 752. The recommendations of Mr. Bell would increase capital project filing requirements beyond what is currently required of utilities, outside of the capital tracker proceedings. As discussed in Decision 2014-269,[[45]] EDTI has been provided multiple Commission directions as to what information is considered relevant and necessary for the purposes of examining capital within a GTA and with which EDTI must remain compliant. These information requirements are in addition to what is already mandatory under the MFRs found on the Commission's website.
>
> 753. Ultimately, the burden of demonstrating to the Commission that its forecast costs are reasonable rests with the utility. Additionally, it is open to the Commission and interveners to request additional information that is believed to be required in IRs and through cross-examination.
>
> 754. The Commission is concerned that imposing the additional requirements recommended of Mr. Bell in this case could further add to the volume and complexity of EDTI's GTA proceedings. The Commission is not convinced at this time that the adoption of distribution function capital tracker – type criteria is necessary, given the volume of information on the record of this GTA and the ability of parties to obtain additional specific capital information, should it be required. [footnotes removed]

88. The Commission continues to be of the view that these statements of the Commission are equally applicable to ATCO Pipelines, and further, the application of capital tracker criteria, previously and currently, proposed by Mr. Bell for assessing ATCO Pipelines' business cases is denied.

89. In addition to the requirements included in Rule 020, as referenced by ATCO Pipelines in this proceeding, the Commission considers that ATCO Pipelines is still required to file business cases for capital projects it proposes for inclusion in revenue requirement. The Commission agrees with the EUB's findings in Decision 2000-9, and with the requirement that information provided in business cases should be of sufficient detail to allow for the testing of the utility's capital projects and the associated expenditures included in a business case.

90. Further, parties have referred to the $500,000 threshold that applies to ATCO Pipelines, and this threshold was confirmed for ATCO Pipelines' business cases in Decision 2003-100,[46] as follows:

> With regard to the minimum cost threshold requiring ATCO Pipelines to conduct business case analyses, the Board continues to accept ATCO Pipelines' minimum cost threshold for major projects of $500,000; however, this threshold would not preclude the Board or interveners from requesting ATCO Pipelines to justify or provide better explanations or information in relation to smaller capital expenditures.[47]

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[45] Decision 2014-269: EPCOR Distribution & Transmission Inc., 2013 and 2014 Transmission Facility Owner Tariff, Proceeding 2758, Application 1609817-1, September 18, 2014.

[46] Decision 2003-100: ATCO Pipelines, 2003/2004 General Rate Application – Phase I, Application 1292783-1, December 2, 2003.

[47] Decision 2003-100, page 13.

91. The Commission considers that the information to be provided, as directed in Decision 2000-9, requires further discussion based on submissions on the record. The findings in Decision 2000-9 for Canadian Western Natural Gas are equally applicable to ATCO Pipelines' business cases. Given the unique arrangement of ATCO Pipelines with NGTL, and the fact that the revenue requirement is recovered through NGTL, the Commission is of the view that it would be instructive to provide some further comment on Decision 2000-9 and ATCO Pipelines' business cases.

92. First, with respect to "a detailed justification including demand, energy and supply information," the information in the business cases should include a detailed description of the project, a discussion of the overall requirement for the project, how the project fits into the existing infrastructure and/or operations and any drivers of the project, which may include economics or safety considerations. Where appropriate, a discussion of the demand, energy and supply information should be included.

93. With respect to the second bullet, "a breakdown of the proposed cost," all projects require an estimate of the capital costs that are proposed to be included in the rate base, and the reasons for the proposed expenditures. The costs should be presented for each year the project is under development or construction until it is added to rate base. New operational expenses, if any, should be estimated if the project is put into rate base before the end of the test period.

94. The third bullet relates to "the options considered and their economics" and should describe the options and alternatives examined. For each alternative, any economic considerations should be provided to support the cost-benefit analysis of the preferred alternative, such that it is clear why the preferred alternative is supported i.e. the rationale for the preferred alternative. For example, a comparison of the cumulative net present value of the revenue requirement, also sometimes referred to as cumulative net present value of cost of service, or cumulative NPVCOS, over at least 10 years should be provided as an economic measure in order to assess the alternatives.

95. The fourth bullet, "the need for the project" should include the rationale of need for the project as outlined under Rule 020, but should also include information as to the growth, replacement, improvement, safety, quality of service, or some combination thereof, and the reasonable timing of the project.

96. In this proceeding, the Commission finds that the business cases provided for forecast capital projects lacked relevant information including, for example, the costs for project alternatives. In addition, the impact on operating costs or cost comparisons based on supporting evidence such as engineering evidence, or qualitative considerations, was not provided for certain business cases, including, for example, the Upgrade Fort Saskatchewan South Fractionator, Lloydminster Gate 3 and Looping, Lac Des Arcs Tap and Lateral, and the Homeglen ILI Run.

97. Although ATCO Pipelines' business cases could have included more detailed information justifying their capital expenditures and alternatives, the Commission is not prepared to apply a general reduction to ATCO Pipelines' forecast because of deficient business cases in light of the discussion that follows with respect to specific capital projects and forecasting accuracy.

98. Any forecast capital expenditures that are underpinned by specific business cases that are not addressed in this decision, are approved as filed.

99. The Commission, however, reminds ATCO Pipelines that the onus is on the utility to provide sufficient information in its business cases to support its capital projects which underpin forecast capital expenditures that are to be included in its revenue requirement.

100. With respect to Calgary's submission that the business case requirements should be consistent with those of ATCO or ATCO Pipelines with Wipro, the Commission does not consider that it is necessary to change the criteria to match what is required with respect to the agreements between ATCO and Wipro. The Commission is not prepared to introduce such a standard at this time, solely for ATCO Pipelines.

101. The asset management projects for 2015 and 2016, which include Hyperion, Maximo Phase 2 and enhancements to GIS, PIMS and MMS, are discussed separately in Section 4.5.9 of this decision.

4.4 Capital additions and capital expenditures forecasting accuracy

102. CAPP argued that ATCO Pipelines had not demonstrated the ability to forecast capital expenditures, and hence rate base, with any reasonable accuracy. CAPP submitted that ATCO Pipelines' capital expenditures were $1.2 million and $47.4 million greater than the Commission's approved amounts in 2013 and 2014 respectively. CAPP suggested this raised two points:

> 1. AP's 2015-2016 GRA application did not state that its cash flow or ability to complete capital projects was impacted by the Commission's decision to reduce its allowed Replacement and Improvements expenditures.
>
> 2. The aggregate capital originally forecast in 2013-2014 was greater than the actual capital spent in 2013-2014, suggesting to CAPP that AP continues to over-forecast its capital expenditures in relation to those projects put into service.[48]

103. CAPP proposed that the capital expenditures and, hence rate base and all rate-base related costs, be treated on an "actual" or annual deferral account basis.

104. CAPP requested the Commission ensure that ATCO Pipelines' return on equity (ROE) and recovery of operating costs reflect only those assets that are used to provide rate-regulated services during the test years, based on the following three principles:

> 1. Rate regulated utilities should only earn a return on projects that are used to provide rate-regulated services (i.e. are in-service);
> 2. Rate regulated utilities should only recover costs directly related to the operation of its system during the test period;
> 3. The over-forecasting of costs, previously disallowed expenses or expenses not incurred during the test period should be disallowed in the calculation of Placeholders and Deferral accounts.[49]

105. Irrespective of deferral treatment, CAPP did not support ATCO Pipelines earning a return on items that are not in service such as the forecast UPR, Maximo or unspecified general projects until these projects are in service, but accepts their inclusion in deferral accounts. CAPP

48 Exhibit 3577-X0326, CAPP argument, page 4.
49 Exhibit 3577-X0326, CAPP argument, page 19.

submitted that ATCO Pipelines' request to change definitions, to calculate deferral account or placeholder balances inconsistently and to include expenses or payments that do not relate to the test period, should be disallowed.

106. CAPP disagreed that ATCO Pipelines had a good record of forecasting capital expenditures. In respect of a table, provided by ATCO Pipelines in its argument that purports to demonstrate this forecasting record, CAPP submitted that the table showed the difference between ATCO Pipelines' approved capital expenditures and its actual expenditures. It does not speak to ATCO Pipelines' ability to forecast capital expenditures. CAPP reproduced the table (below) from page 41 of ATCO Pipelines' argument using forecast and actual capital expenditures for 2011-2014. CAPP argued that this revised table illustrated that ATCO Pipelines over-forecast its capital expenditures for this period by $52.75 million.

107. CAPP's reproduced table of capital expenditures from 2011 to 2014 is set out below:[50]

Table 6. Comparison of actual and forecast capital expenditures from 2011-2014

Capital	2011(1)	2012(1)	2013(2/3)	2014(2/3)	Total
Actual	111,782	74,152	145,890	185,918	517,742
Forecast	156,749	80,662	155,747	177,335	570,493
	(44,967)	(6,510)	(9,857)	8,583	(52,751)
	-28.69%	-8.07%	-6.33%	4.84%	-9.25%

(1) AUC Decision 2013-430 (ATCO Pipelines' 2013-2014 GRA), Table 2.
(2) 2013 & 2014 Forecast - AUC 3577 AP-AUC-2015Feb03-20 Attachment 2; page 1/22.
(3) 2013 & 2014 Actual - AUC 3577 AP-AUC-2015Feb03-20 Attachment 1; page 1/21.

108. CAPP observed that not only did ATCO Pipelines significantly over-forecast capital expenditures during the period but it also significantly over-forecast its rate base. As a result, ATCO Pipelines significantly over-earned in 2013 and 2014. ATCO Pipelines' approved rate base was reduced from an even higher ATCO Pipelines forecast rate base that was greater than actual rate base by $7.63 million in 2013 and $22.23 million in 2014. ATCO Pipelines' argument that it had improved its forecasts of capital expenditures was not supported by the evidence and was also irrelevant. ATCO Pipelines' earnings are a function of its rate base, not capital expenditures. CAPP proposed to the Commission that the most effective way to manage over-earning based on an inflated rate base was to give all capital expenditures deferral account treatment, only allowing assets into rate base when the specific facilities are actually in service.[51]

109. In addition, CAPP provided the following analysis of earnings between 2009 and 2014:[52]

50 Exhibit 3577-X0341, CAPP reply argument, page 3.
51 Exhibit 3577-X0341, CAPP reply argument, page 4.
52 Exhibit 3577-X0326, CAPP argument, page 1.

Table 7. Comparison of approved return on equity versus actual for 2009-2014

Year	2009	2010	2011	2012	2013	2014 estimate	2014 actual(2)
	(%)						
Approved equity thickness	43.00	45.00	45.00	38.00	38.00	38.00	37.00
Approved ROE	9.00	9.00	8.75	8.75	8.75	8.75	8.30
Actual ROE	Note 1	10.85	11.53	11.16	10.14	9.83	10.31
Over earning of ROE		1.85	2.78	2.41	1.39	1.08	2.01

Actual ROE values are derived from Rule 005, Schedule 2 unless otherwise noted.
Note 1 - For 2009, ATCO Pipelines was reported as ATCO Pipelines-North (actual ROE = 10.75 per cent) and ATCO Pipelines-South (actual ROE = 11.3 per cent).
Note 2 - Actual 2014 ROE updated from CAPP -1 in IR AUC--4 Attachment 1; page 3/18.

110. The UCA considered that there are three general areas that should be considered in the justification of forecast capital project costs for inclusion in rates. The utility should demonstrate, in the absence of the proposed capital expenditures, that deterioration in service quality and safety would result. The utility should also demonstrate why the project timing is optimal and the utility should provide a comparison of the actual costs of similar projects over the last five years to the forecast costs for each project, together with an explanation for any differences between these amounts.

111. The UCA was also concerned that ATCO Pipelines had over-forecast the amount of work it will be able to do during the test period. On average, over the last four years, customers have paid for 17 per cent more capital in rates than was actually spent.

112. Notably, ATCO Pipelines is forecasting a significant increase in spending for ILI in the test years, despite ILI having been a legal requirement since 2006, according to ATCO Pipelines, and an industry-standard practice for many years before that.

113. The UCA argued that ATCO Pipelines had increased the amount of capital related to ILI from $358,000 in 2013 and $4,358,000 in 2014 to $10,155,000 in 2015, and $16,470,000 in 2016. Given the history of over-forecasting of capital additions, the fact that ILI is a longstanding practise that ATCO Pipelines has failed to implement, and the increase in spending on ILI in 2015 and 2016, the UCA questioned whether ATCO Pipelines can or will accomplish all of its plans to implement ILI as well as its other capital project work during the test years.[53] The UCA recommended that the forecast of capital additions be reduced by 17 per cent to reflect this historical pattern of ATCO Pipelines over-forecasting capital expenditures, and to reflect the ability of ATCO Pipelines to achieve all of its planned capital projects.[54]

114. The UCA asserted ATCO Pipelines had a history of a systemic over-forecasting capital expenditures as demonstrated in the following table of capital additions. Actual capital additions are shown to be lower than forecast in each year:[55]

[53] Exhibit 3577-X0224, R. Bell evidence for the UCA, page 23.
[54] Exhibit 3577-X0333, UCA argument, paragraphs 125-127.
[55] Exhibit 3577-X0224, R. Bell evidence for UCA, Q26/A26, page 21.

Table 8. Comparison of actual versus approved capital additions from 2011-2014

Capital additions	Reference[56]	2011	2012	2013	2014	Total
		($000)				
Actual	Exhibit 3577-X0056	88,466	70,704	118,786	174,179	452,135
Approved	Exhibit 3577-X0178	136,976	91,002	141,465	176,262	545,705
Variance		(48,510)	(20,298)	(22,679)	(2,083)	(93,570)
%		-35.41%	-22.31%	-16.03%	-1.18%	-17.15%

115. Since ATCO Pipelines did not provide detailed approved capital additions for 2011 and 2012, the UCA submitted that a more detailed analysis of the over-forecasting could not be provided, but it was clear that there was a systematic over-forecasting of capital additions.

116. Approved capital additions were approximately 17 per cent higher than actual capital additions over the years 2011 to 2014. This resulted in $93 million of capital in rates that was not spent. ATCO Pipelines' forecast capital expenditures for 2015 and 2016, including in relation to ILI, showed substantial escalation when compared to previous years.[57]

117. ATCO Pipelines argued that the UCA's speculation on ATCO Pipelines' ability to implement ILI during the test period, without any expertise on ILI or knowledge of ATCO Pipelines' system or staffing or contracting practices, should be rejected by the Commission. ATCO Pipelines argued that denying ILI funding would send entirely the wrong signal to ATCO Pipelines in the current climate of increased public expectations of pipeline operators.

118. ATCO Pipelines noted the UCA's claims that it had a "… history of over forecasting capital expenditures" but argued that its trending in capital expenditures was the opposite, as evidenced by the table provided below:[58]

Table 9. Comparison of actual versus approved capital expenditures from 2011-2014

Capital expenditures	Reference	2011	2012	2013	2014	Total
		($000)				
Actual	Exhibit 3577-X0056	111,782	87,630	146,382	185,105	530,899
Approved	Exhibit 3577-X0178	154,874	82,159	144,684	138,547	520,264
Variance		(43,092)	5,471	1,698	46,558	10,635
% annual		-27.82%	6.66%	1.17%	33.60%	2.04%
3-year % (2012-2014)			14.7%			
2-year % (2013-2014)				17.0%		

119. ATCO Pipelines argued that it was on target with its necessary applied-for capital work for the 2013-2014 test period. As noted in the ATCO Pipelines argument, the UCA based its recommendation for a disallowance of 17 per cent of capital additions on stale data that was used to reduce ATCO Pipelines' costs in the past and on the unwarranted assumption that ATCO Pipelines would not be able to complete its forecast work in the test period.

56 Actual from AP-UCA-2015Feb03-010(a) Attachment 27 and approved from AP-UCA-2015May21-078(a) Attachment 28.

57 Exhibit 3577-X0333, UCA argument, paragraph 136(f).

58 Exhibit 3577-X0328, ATCO Pipelines argument, paragraph 69.

120. ATCO Pipelines disagreed that any capital reduction, let alone an arbitrary, across-the-board reduction, was warranted. As evidenced by the capital expenditures table above, ATCO Pipelines had demonstrated a good record of forecasting capital expenditures. ATCO Pipelines pointed to its actual and forecast capital additions variance, which shows an improving trend, before looking at project circumstances for individual variances.

Commission findings

121. The Commission observes that the UCA places emphasis on capital additions, while ATCO Pipelines argues its position based on capital expenditures**.** CAPP, on the other hand, would prefer to use actuals and a deferral account method of treatment before capital expenditures are added to rate base.

122. The Commission is of the view that the evidence on the record shows that ATCO Pipelines has a history of over-forecasting capital expenditures in Table 6 and capital additions in Table 8, of 17.15 per cent and 9.25 per cent respectively, over the 2011-2014 period. The Commission finds that an adjustment to forecast capital expenditures is reasonable and will ultimately result in a corresponding reduction to capital additions. However, the Commission considers that the reduction is only warranted for certain categories of capital expenditures.

123. The Commission finds that no adjustments are required to UPR capital expenditures due to the rebids that have occurred during the course of the proceeding and that the UPR amount will be adjusted in the related deferral account. Further, no adjustment is required to growth capital expenditures because these amounts are impacted by the NGTL directed growth capital expenditures deferral account and to the forecast relocation capital expenditures (which are offset by contributions). IT capital projects, in particular, have been considered on a case-by-case basis in Section 4.5.9 of this decision. ATCO Pipelines' applied-for gap analysis related to ISO 55001 certification is addressed in the O&M section of this decision, in Section 6.3.1.

124. The Commission finds that the forecasting accuracy for replacement and improvement capital expenditures appears to have been problematic, as reflected in the data summarized by CAPP, which shows a $39 million or 10 per cent difference between forecast and actual expenditures over the period studied for the replacement and improvement categories.

125. ATCO Pipelines is directed to reduce its forecast by 10 per cent for replacement and improvement capital expenditures. The Commission considers a 10 per cent reduction is reasonable given the historical information provided by ATCO Pipelines for capital expenditures in this category, and given the forecast work and capital expenditures that are likely to result from capital projects to be undertaken in 2015 and 2016.

126. The Commission also considers that capital expenditures in general are best examined on a forecast, prospective basis. If capital expenditures were entirely subject to deferral accounts, this would not provide an incentive for ATCO Pipelines to manage its forecast capital costs. Accordingly, CAPP's proposed deferral account for capital expenditures is denied.

127. In addition to the Commission's reduction to ATCO Pipelines' 2015-2016 improvements and replacement capital expenditures, the Commission has provided its concerns and findings with respect to specific capital projects in the sections that follow. Capital expenditures related to capital projects for the 2015-2016 test years that are not subject to specific directions in this decision, are approved as filed.

4.5 Capital projects

128. In the section that follows, the Commission includes a discussion of capital projects that were contentious in the proceeding. The Commission has reviewed the information on the record with respect to the capital projects not specifically addressed in this decision, and is satisfied that ATCO Pipelines has justified the need for these projects, and therefore approves the forecast capital expenditures for the test period, as filed.

4.5.1 Urban Pipeline Replacement projects

129. On January 17, 2014, the Commission issued Decision 2014-010[59] which approved the proposal related to the need for ATCO Pipelines' UPR pipelines. The UPR proposal is comprised of 12 individual pipeline projects, four in Edmonton and eight in Calgary. ATCO Pipelines stated that the need for the UPR project is driven by safety, reliability and future growth considerations. The existing Edmonton and Calgary pipeline systems that ATCO Pipelines proposes to replace with the pipelines that make up the UPR program will either be transferred to ATCO Gas for conversion to distribution use, or abandoned. ATCO Pipelines proposed to complete the UPR project over a period of five years. In Decision 2014-010, the Commission found that ATCO Pipelines had demonstrated a need to relocate the Edmonton and Calgary systems and was satisfied that approval of the UPR proposal is the best alternative to address that need. ATCO Pipelines' UPR application was approved subject to the direction that ATCO Pipelines must advise the Commission of any material changes to the timing or any other aspect of the implementation of the UPR proposal at the time of any related facilities application or at the time of its next GRA, whichever comes first.[60]

130. ATCO Pipelines provided the following table[61] outlining its forecast expenditures for several UPR projects of which some of the capital expenditures were outside the test years:

59 Decision 2014-010: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., Urban Pipeline Replacement Project, Proceeding 1995, Application 1608617-1, January 17, 2014.

60 Decision 2014-010, paragraphs 249 and 300.

61 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 2.3.1, pages 4-5 of 7.

Table 10. Forecast ATCO Pipelines UPR capital expenditures

Description	2013 LTD	2014	2015	2016	2017	2018	Total project
	($000)						
Edmonton							
Northwest Edmonton Connector	24,951	1,847	-	-	-	-	**26,798**
Southwest Edmonton Connector	971	5,500	43,362	22,187	542	-	**72,562**
Northeast Edmonton Connector	-	-	-	4,788	27,864	380	**33,032**
South Edmonton Connector	-	-	-	-	37,382	5,367	**42,749**
Calgary							
East Calgary Connector	12,427	930	47,731	1,615	-	-	**62,703**
Southeast Calgary Connector	8,526	2,701	47,569	1,615	-	-	**60,411**
Northeast Calgary Connector	6,978	2,709	57,950	6,544	190	-	**74,371**
Peigan Trail Lateral	-	-	950	34,485	2,850	237	**38,522**
West Calgary Connector	-	-	1,425	66,766	2,584	-	**70,775**
Northwest Calgary Connector	-	-	-	-	53,319	1,092	**54,411**
Southwest Calgary Connector	-	-	-	-	60,800	3,064	**63,864**
Total capital	**53,853**	**13,687**	**198,987**	**138,000**	185,531	**10,140**	**600,198**

*Costs do not include ATCO Gas costs.

131. On December 19, 2014, ATCO Pipelines provided correspondence in the Northeast Calgary Connector facilities proceeding, and committed to undertaking a rebid of the UPR projects, due to a “sharp reduction in oil prices.” ATCO Pipelines submitted that this was a reasonable response to the dramatic oil price decline and this represented a measured approach to ensuring UPR project costs continued to reflect market pricing, while balancing such concerns against the harm of an undue delay in the implementation of the UPR project.

132. ATCO Pipelines submitted that the rebid confirmed market pricing savings, which was first noticed in the Northeast Calgary Connector rebid and resulted in ATCO Pipelines reducing its UPR project costs by five per cent in its June application update. ATCO Pipelines proposed the use of a deferral account to provide customers any benefit from future tenders in the test period when actual costs are below the original forecast.

133. The CCA was concerned that expenditures to complete the UPR projects have increased dramatically over the estimates provided in the UPR hearing in 2014. The CCA submitted that the total project forecast costs still had a great deal of uncertainty as ATCO Pipelines still had not completed detailed design or costing for the required improvements at the Edmonton Ethane Extraction Plant related to the South Edmonton Connector.

134. The CCA observed that five years after ATCO Pipelines conceived of the UPR and four years after the Northwest Edmonton Connector was installed, prior to the Commission mandating the UPR hearings, ATCO Pipelines still had not completed detailed design and costing for the replacement facilities at the Edmonton Ethane Extraction Plant and finalized the plans for the pipelines that are currently serving it, i.e., Pembina, Swan Hills, Bonnie Glen, and Devon. These pipelines were identified as critical to be removed from high-pressure service. Also, ATCO Gas had not provided costing for the future major gate and distribution infrastructure to support the modifications at the Edmonton Ethane Extraction Plant in its capital

tracker application for 2016-2017 and the ATCO Gas expenditures for this element of UPR were still unknown and not part of the total cost to date.

135. The CCA submitted that even without this critical information from ATCO Gas and detailed costing for ATCO Pipelines' final elements, the projected UPR costs already total $828 million. The delay in having detailed plans and costing for the referenced projects was even more troubling since the Pembina line was singled out as a line that was not safe for continued operation in its current location in the UPR hearing, yet it was one of the last to be addressed in ATCO Pipelines' UPR schedule. Another area of concern was in the business cases for Northeast Edmonton Connector, Peigan Trail Lateral and the Southwest Calgary Connector, where it was documented that NGTL had not yet confirmed required sizing. The CCA noted that it is a full two years past the UPR application, and final sizing is still not completed, with no update or understanding of the nature, or progress of the discussions between ATCO Pipelines and NGTL related to the long-term supply for Edmonton and Calgary and the UPR sizing criteria.

136. The CCA was also concerned with the lack of transparency related to hydraulic reviews in the UPR process. The documentation provided for the technical justification of each of the connector pipelines was a single sentence acknowledging NGTL's confirmation of the proposed sizing. The CCA submitted that this was inadequate for the justification of projects of this magnitude. The CCA recommended that going forward, detailed hydraulic analysis be required for ATCO Pipeline projects approved by NGTL. The CCA submitted that critical information required to make informed decisions in the public interest had been excluded from the public because of confidentiality between ATCO Pipelines and NGTL. Of particular note were the large cost overruns of the UPR project, combined with ambiguity of actual costs.

137. The CCA submitted that the information provided in the UPR and ILI business cases was insufficient for a thorough public review of proposed expenditures. To best address the public interest, the CCA requested that the Commission direct ATCO Pipelines to provide a complete description of the hydraulic elements of the UPR projects, including pipeline flows in critical scenarios for all high pressure lines and NGTL's long-term plans for sourcing the Edmonton and Calgary UPR systems. ATCO Pipelines should include clear labeled maps showing all of its high pressure assets in the urban areas of Calgary and Edmonton, including high pressure lines that were not part of the UPR plan or discussions. The Alberta Energy Regulator licencing information for all ATCO Pipelines' lines should be included. Additionally, the information should clearly identify all high pressure lines within the city limits of Edmonton and Calgary, and the vintage and normal operating pressures that will remain post-UPR. The CCA asserted that without the requested information it was not possible to provide adequate oversight on these proposed projects.

138. CAPP objected to the inclusion of the Peigan Trail Lateral, West Calgary Connector and the Northeast Edmonton Connector projects in ATCO Pipelines' 2015-2016 revenue requirement, because the scope, the NGTL's hydraulic approvals and detailed engineering were not complete. CAPP argued that the onus was on ATCO Pipelines to submit information that was complete and could be tested for reasonableness. The costs should be disallowed, until the scope of the project was finalized and costs known and could be tested by interveners.[62]

139. ATCO Pipelines submitted that the Peigan Trail Lateral and the West Calgary Connector projects were slated for construction in 2016, while the Northeast Edmonton Connector was

[62] Exhibit 3577-X0326, CAPP argument, page 6.

scheduled to be constructed in 2017. ATCO Pipelines included forecast costs to complete the detailed engineering and construction for the Peigan Trail Lateral and the West Calgary Connector projects in the test period. It was common under prospective based regulation to include in test years forecast projects in advance of when they are scheduled to be completed. ATCO Pipelines argued that such was the very nature of prospective ratemaking. To exclude projects from the two-year test period simply because they remain, to some extent, under development was an attack on prospective ratemaking. ATCO Pipelines submitted that it had provided extensive evidence on these projects, and their associated cost forecasts were supported by results from rebids on three other UPR projects.

140. ATCO Pipelines argued that the CCA was referencing evidence from the ATCO Gas capital tracker application in Proceeding 20604 that is not on the record in this proceeding and should be given no weight by the Commission. Also, the CCA was raising issues with respect to components of the UPR project that were not part of the test period but were slated for construction in later years.

141. ATCO Pipelines noted the CCA's concern with the lack of budgeted amounts for the major gate station required at the Edmonton Ethane Extraction Plant, no description of the distribution infrastructure required and no commitment as to whether ATCO Gas will utilize ATCO Pipelines' lines. ATCO Pipelines explained that these facilities were not slated for construction in the test period, and that further, "The high level budgets were developed and presented in this application to ensure transparency of the overall UPR program. However, detailed estimates and business cases for projects outside of the test period will be filed in future GRAs."[63]

4.5.1.1 UPR deferral account

142. As a result of rebidding three UPR projects and noting that a reduction had occurred, ATCO Pipelines proposed a deferral account, which could be used during the test period to provide customers any benefit from future tenders below the original forecast.

143. The UCA noted that Mr. Bell's evidence specifically identified the deferral account proposed by ATCO Pipelines for the UPR projects as being of concern. He stated:

> The decision of when and how to effect the UPR program is ultimately within the control of AP's management. AP should be expected to rigorously administer procurement practices to ensure that its system is developed in the most cost effective manner possible.[64]

144. The UCA fully agreed with the principles that Mr. Bell articulated in his evidence, but took the following position:[65]

> … However, based on its evaluation of the full record of the proceeding, including cross examination, at this time and in these circumstances the UCA supports AP's request for deferral account treatment for the UPR project component of 2015-2016 Revenue Requirement. This is despite the fact that Mr. Bell stated that "[t]hese circumstances

63 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 73.
64 Exhibit 3577-X0224, R. Bell evidence for UCA, Q32/A32, page 26.
65 Exhibit 3577-X0333, UCA argument, paragraph 60.

> should not qualify for deferral account treatment" – a statement that the UCA would typically support.

145. CAPP supported the use of a deferral account for UPR projects and other projects in order to mitigate the over-forecasting of projects by ATCO Pipelines that were not in service during the test period.

Commission findings

146. The Commission agrees with ATCO Pipelines that the CCA has focussed some of its comments on projects that are not included in the test years and therefore the Commission has restricted its findings to the UPR projects that are included in the test years.

147. In respect of the Peigan Trail Lateral and the West Calgary Connector, the Commission agrees that it is in keeping with prospective rate making that forecast estimates are necessary for any capital expenditures expected during the test years. Given that prospective rate making is the regulatory model in use for ATCO Pipelines, the Commission is satisfied that ATCO Pipelines has provided reasonable estimates for UPR projects during the test years. In respect of details and other aspects of the various UPR projects yet to be approved, they will be subject to future approval in either a facilities or rates proceedings.

148. The Commission agrees with the CCA that the lack of transparency with respect to the hydraulic analysis, technical justification and the confidential nature of NGTL's approval for UPR projects is a serious concern. In spite of information that may be confidential, in future general rate applications, the Commission directs ATCO Pipelines to provide more detailed information to support the hydraulic analysis, technical justification and financial justification of its pipeline projects, including NGTL's rationale for its approvals. The Commission considers that this approach is reasonable because it allows for efficient processing of the current application but acknowledges that further information is required on a go-forward basis. It will also allow ATCO Pipelines the opportunity to consult with NGTL on what information can be disclosed on a public basis, and if there are concerns with confidentiality, ATCO Pipelines can apply to the Commission for confidential treatment of information that may be required to support its revenue requirement with respect to UPR projects or other pipeline projects that may require information from NGTL.

149. The Commission acknowledges the concerns of interveners with the significant increase in capital expenditures that were forecast for the UPR projects. As observed by the UCA, it is of interest that the increases appear to be with contract pricing rather than an increase in the labour or material components of UPR projects.

150. It appears to the Commission that the timing of the tendering may have much to do with the bid prices and re-tendering has provided some price relief, in part due to the economic downturn. ATCO Pipelines reduced its forecast expenditures during the test years by five per cent, and these forecasts are approved as filed. However, given the current economic climate, ATCO Pipelines is directed is to provide an update on its efforts to reduce UPR capital costs in the compliance filing, and to provide the actual costs of these projects for the 2015test year.

151. In light of the above and the nature of the UPR projects that are yet to be completed, the Commission finds that the proposed deferral account for UPR capital expenditures, meets the criteria for deferral account treatment set out in Decision 2003-100:

1. Materiality of the forecast amount.
2. Uncertainty regarding the accuracy and ability to forecast the amount.
3. Whether or not the factors affecting the forecast are beyond the utility's control.
4. Whether or not the utility is typically at risk with respect to the forecast amount.[66]

152. Further, the UPR deferral account appropriately balances the interests of customers and the utility consistent with Commission's finding from Decision 2010-189:[67]

> 73. In another Board decision, also referenced in Decision 2003-100, the Board, when examining the merits of an application for a deferral account on the facts of that proceeding, took the view that "deferral accounts should not be for the sole benefit of either the company or the customers." Deferral accounts, rather, should "provide a degree of protection to both the Company and the customers from circumstances beyond their control," and hence "[s]ymmetry must exist between costs and benefits for both the Company and its customers." The Board also noted that it expected that "the individual mechanisms involved in the use of each deferral account should be applied in a consistent and fair manner in both test years and non-test years." This will be referred to as the symmetry factor.
>
> 74. The deferral accounts proposed in this proceeding will be examined on its overall merits, as the Board and Commission have done in the past on a case-by-case basis. Nonetheless, the Commission considers the four factors plus the symmetry factor as instructive for the purpose of this evaluation.[68] (footnotes removed)

153. Accordingly, the Commission approves the reduced forecast capital expenditures as provided in the June 2015 application update by ATCO Pipelines. The Commission also approves the proposed UPR deferral account.

4.5.1.2 UPR procurement process

154. On March 20, 2015, the Commission granted confidential treatment for UPR information responses that largely related to ATCO Pipelines' procurement process. As a result, the summary of argument from the UCA and ATCO Pipelines on the UPR procurement process is provided at a high level to ensure the confidential nature of the information on the record is maintained.

155. As noted in Section 7.1 of the application, UPR forecast capital costs have increased from approximately $369 million to $600 million over a three-year period.

156. The UCA argued that the competitive bid process did not result in competitive bid pricing despite relatively flat labour and material costs because the bid process timelines were shortened, the number of bidders were too small, the tender process was confusing, and UPR costs were forecast on an incomplete tender process. Further, ATCO Pipelines' standard procurement process was not structured to mitigate cost pressures, and potential bid errors were not corrected.

157. To remedy the UCA's concerns, ATCO Pipelines proposed deferral account treatment, so that parties can test ATCO Pipelines' procurement practices and whether ratepayers will have obtained lower costs as a result of the weakened Alberta economy.

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[66] Decision 2003-100, pages 115-116.
[67] Decision 2010-189: ATCO Utilities, Pension Common Matters, Proceeding 226, Application 1605254-1, April 30, 2010.
[68] Decision 2010-189, pages 17-18.

158. ATCO Pipelines argued that the bids received were part of a robust bid process with good depth of qualified bidders. Further, the UPR needs proceeding provided 2011-2012 high-level estimates, and were based on the first UPR constituent project completed before the UPR needs proceeding ‘time-out,’ and came within five per cent of budget. With respect to any bid errors, ATCO Pipelines explained that they could be addressed within the bid review process. In addition, all bidders were afforded a reasonable period to submit their bid, especially given they were in an earlier UPR bid process.

Commission findings

159. The Commission has reviewed the evidence with respect to ATCO Pipelines’ procurement process and is satisfied that the bid process is reasonably competitive and has a sufficient number of qualified bidders. However, the Commission concurs with the UCA that the UPR cost increases are significant and material to customers, from not only a transmission perspective, but also with respect to the timing and future tie-ins with the ATCO Gas distribution system. Given these concerns, the Commission has approved deferral account treatment for UPR capital expenditure in the test years, which will afford interested parties an opportunity to provide submissions on the costs to be recovered related to the UPR procurement process in future applications.

4.5.2 Inland Looping project

160. ATCO Pipelines proposed the construction of the Inland Looping project in the period, which consists of up to 26.7 kilometres (km) of 508 millimetre (mm) pipeline (maximum operating pressure of 8,450 kilopascals) looping the Inland Transmission system from the western end of Norma Transmission (LSD 04-34-53- 18-W4) to the junction of Inland Wye (LSD 01-04-55-20- W4). In consultation with ATCO Pipelines, NGTL has forecast that ATCO Pipelines’ north integrated system will experience a supply shortfall by the winter of 2016-2017, primarily due to a combination of temperature sensitive growth and industrial demand growth in the greater Edmonton area. The Inland Loop pipeline has been selected by NGTL as the optimal project to provide the required incremental capacity. The expected in-service date is November 2016 and the total project cost is estimated at $52,375,000.

161. In response to AP-AUC-2015FEB03-063(g), ATCO Pipelines explained that NGTL no longer supports the full 26.7 km of Inland looping. NGTL now proposes the original 18 km of Inland Looping in 2016 at an estimated cost of $40,000,000, and looping two parts of the Pembina system in 2015 and 2016.[69] The project is still expected to be in -service by November 2016.[70] Additional looping of the Pembina system is required as a result of a change in forecast supply/demand balance on the integrated Alberta System.

162. As noted in AP-AUC- 2015FEB03-002, ATCO Pipelines anticipates the creation of two discrete growth projects, the Inland Loop project and Pembina Loop. The projects’ need and scope are still being finalized. Therefore, ATCO Pipelines submitted that any revenue requirement impact will be captured in the NGTL directed growth capital deferral account.

163. No intervener objected to ATCO Pipelines’ proposed project.

69 Exhibit 3577-X0171, AP-AUC-2015MAY21-020(b).
70 Exhibit 3577-X0064, AP-AUC-2015FEB03-063(e) and (g).

Commission findings

164. The Commission notes that the Inland Looping project has been revised into two discrete projects, the Inland Loop project consisting of 18 km of pipeline and the Pembina Loop project. Given ATCO Pipelines' explanation of the change in scope of the Inland Loop project, the Commission approves the inclusion of the Inland Looping project in the NGTL directed growth capital deferral account. The Commission has reviewed the evidence with respect to the need for the project and the related forecast capital costs (or capital expenditures) and is satisfied that they are reasonable. Therefore, the Commission approves the need for the project and related forecast. As a result of the change in scope of this project, ATCO Pipelines is directed in its compliance filing to reflect the updated forecast of $40 million in the NGTL deferral account and confirm that the Inland Looping and Pembina Loop project pipeline are still expected to be in service by November 2016.

4.5.3 Upgrade 406 mm Viking 3 and 508 mm Viking 4 Transmission

165. ATCO Pipelines is proposing to upgrade the 406 mm Viking 3 and 508 mm Viking 4 transmission lines from the Legal Uncas Interconnect to Edmonton Gate 1, to accommodate ILI. The total project cost is estimated at $4,750,000.

166. The CCA submitted that the business case for this project was incomplete in that it did not identify the location or specific nature of the upgrades, nor did it indicate the costs associated with individual sites. The business case indicated the ILI site upgrades will terminate at Edmonton Gate 1, which is located within the City of Edmonton. ATCO Pipelines' testimony implied the Viking 3 and 4 lines will terminate at the UPR. The CCA noted that there was no diagram attached to the business case to provide any clarity as to where the lines will terminate. The CCA recommended that the Commission direct ATCO Pipelines to refile its business case for the Viking number 3 and 4 ILI valve assemblies. The business case should identify the specific locations, individual costs of each upgrade, and the long-term plan for Viking 3 and 4 lines regarding their continued location in Edmonton and their relationship to the UPR project.

167. ATCO Pipelines explained that the ILI tools cannot run on the 406 mm Viking 3 and 508 mm Viking 4 transmission pipelines without modification and ILI is required to identify potential locations of pipeline defects. Detailed ILIs will minimize risk of pipeline failure from unidentified defects and ensure the continued reliable operation of the pipelines. The proposed upgrades on the 406 mm Viking 3 and 508 mm Viking 4 pipelines are located within a 23 km segment between the Legal Uncas Interconnect and Edmonton Gate 1.

168. Further, ATCO Pipelines clarified that the 406 mm Viking 3 Transmission was built in 1948 and it is enamel coated seamless steel pipe. The 508 mm Viking 4 Transmission was built in 1974 and is yellow jacket coated double submerged arc welded steel pipe. Coating damage due to soil stress, rocks or backfilling practices, or from tenting at welds may exist. This damage can shield the cathodic protection current used for corrosion control from reaching the metal pipe surface and result in metal loss. Permanent modification of valves assemblies and other pipeline features are needed to allow the passing of an ILI tool so that the pipelines can be inspected with minimal to no disruption in pipeline operation.

Commission findings

169. The Commission is satisfied that ATCO Pipelines has clarified that the lines will terminate at the Edmonton Gate 1 and the maps provided in the UPR proceeding leading to

Decision 2014-010 show the Viking lines ending at Edmonton Gate 1. No further information is required to address the concern raised by the CCA of where the lines will terminate.

170. The Commission has reviewed ATCO Pipelines' proposal and estimate for the upgrades of the Viking 3 and Viking 4 transmission lines provided in the business cases and finds them to be reasonable. Consistent with the Commission's findings in Section 4.3 of this decision, with respect to capital business cases, it is noteworthy that the business case did not provide estimates of the costs related to the alternatives. Details regarding the various sites would have provided greater transparency with respect to the costs associated with the business case. However, the Commission finds that the estimated costs are reasonable for the work to be completed with respect to the upgrades of the Viking 3 and Viking 4 transmission lines.

171. Based on a review of the evidence, the Commission approves the need for the project and related forecast capital costs as filed.

4.5.4 Upgrade 406 mm Pembina Transmission from Thorsby A Receipt to Edmonton Ethane Extraction Plant

172. ATCO Pipelines proposed to upgrade the 406 mm Pembina transmission line to accommodate ILI at an estimated cost of $2,250,000.

173. The CCA submitted that the business case for the Pembina Transmission Upgrade was unclear. Specifically, it was unclear about which sites were involved, as well as the cost, location, and scope of work for each site, particularly whether or not ATCO Pipelines was including a launcher on the discontinued portion of the Pembina Transmission at the Edmonton Ethane Extraction Plant. A portion of the pipeline was to be discontinued, specifically the Pembina transmission pipeline at the Edmonton Ethane Extraction Plant. The CCA submitted that if the project involved facilities that were part of the UPR project, then they should be indicated as part of UPR to ensure that the scope of the proposed project was understood. The CCA submitted the business case should be resubmitted to clearly identify the scope of the project, and how the project addresses UPR considerations related to the future abandonment of the Pembina line.[71]

174. ATCO Pipelines explained that the 219 mm Pembina Lobstick Transmission was built in 1961 and is polyethylene tape coated seamless steel pipe. The 219 mm Pembina Lobstick Loop was built in 1981 and is yellow jacket coated, and is high frequency electric resistance welded steel pipe.

175. ATCO Pipelines stated that it planned to modify three valve assemblies on the 219 mm Pembina Lobstick Transmission and three valve assemblies on the Lobstick Loop from the Lobstick Receipt at LSD 9-17-50-7-W5M to Drayton Valley North Bank Block Valve at LSD 12-33-48-7-W5M, to allow for ILI. ILI tools cannot be run on the 219 mm Pembina Lobstick Transmission and Lobstick Loop pipelines without modification. ILI is required to identify potential location-specific pipeline defects. Detailed ILIs will minimize risk of pipeline failure from unidentified defects and ensure the continued reliable operation of the pipelines.

[71] Exhibit 3577-X0331, CCA argument, paragraphs 18-19.

176. ATCO Pipelines stated that the ILI receiving station on the portion of the line scheduled for abandonment was being used "while it was available to avoid the costs of constructing a new receiving station upstream."[72]

Commission findings

177. The Commission is satisfied that ATCO Pipelines has explained that the ILI receiving station is still in use. The Commission notes that the testimony of ATCO Pipelines' witness was, as follows:

> A. MR. RADKE: So just to clarify, the upgrades that are proposed in this business case to make the pipeline piggable are on the section of pipe out of the city while the pipe -- the ILI tool will be received at EEP. The cost of loading a tool into a pipeline is the bulk of running the cost. When you run an ILI tool – having it go extend down the pipeline for a few extra kilometres to receive at another end point doesn't really change anything.
>
> So in this particular case, we're upgrading this pipeline outside of the city so that we can launch that tool through -- run it all the way through and get data before we end up abandoning or transferring part of that Pembina pipeline inside of the city.[73]

178. Due to the information provided in the business case and the further explanation provided by ATCO Pipelines' witness in the hearing, the Commission accepts ATCO Pipelines proposal for the Upgrade 406 mm Pembina Transmission project from Thorsby A Receipt to Edmonton Ethane Extraction Plant, and the costs estimates provided in the business case, as reasonable. Therefore, the Commission approves the need for the project and related forecast capital costs, as filed.

179. Consistent with the Commission's findings in Section 4.3 of this decision, with respect to capital business cases, it is noteworthy that the business case did not provide estimates of the costs related to the alternatives. These details regarding the alternatives would have provided greater transparency with respect to the costs associated with the business case, however, the Commission finds that the estimated costs are reasonable for the work to be completed with respect to the Upgrade 406 mm Pembina Transmission project from Thorsby A Receipt to Edmonton Ethane Extraction Plant.

4.5.5 Upgrade 323 mm Opal Field Transmission from Opal 26-56 Reducer to Redwater Opal Tie-In

180. ATCO Pipelines proposed an upgrade on the 323 mm Opal Field Transmission pipeline that will allow for ILI of a five km segment between Opal 26-56 Reducer and Redwater Opal Tie-In. The total project cost was estimated at $650,000.

181. ATCO Pipelines explained that the 323 mm Opal Field Transmission was built in 2008 and is fusion bond epoxy electric resistance welded steel pipe. Coating damage due to soil stress, rocks or backfilling practices or from tenting at welds may exist. This damage can shield the cathodic protection current used for corrosion control from reaching the metal pipe surface and result in metal loss. Also, the risk of mechanical damage increases in pipelines in or near urban/industrial areas.

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72 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 70.

73 Transcript, Volume 1, page 137, line 20 to page 138, line 8.

182. The UCA was concerned that the business case suggested that a modified valve assembly was required to retrofit a legacy line to enable ILI.

183. The UCA argued that building a piggable system was far from novel in 2008 and that ATCO Pipelines had missed an opportunity to install ILI capability then. Given that it already had teams mobilized to deal with similar issues, as confirmed by counsel for the UCA under cross-examination,[74] the UCA submitted that ATCO Pipelines was incurring extra costs to advance its ILI program now.

184. While ATCO Pipelines explained to the panel chair during questioning that ATCO Pipelines did not intend to increase its revenue requirement as a result of the revision that was the subject of the facilities application in Proceeding 20682,[75] the UCA remained concerned that the actual costs of the Opal Field Transmission Pipeline would be included in rate base. The UCA argued that ratepayers should not pay more now when ATCO Pipelines overlooked an opportunity to do this work more cheaply in 2008.

185. The UCA submitted that the amount that is ultimately included in actual rate base should be limited to the cost that would have been incurred had the work been prudently undertaken in 2008, the last time ATCO Pipelines had crews in the area. As a proxy for this amount, the UCA submitted that rate base additions related to the Opal Field Transmission Pipeline should be limited to the forecast costs currently included in the GRA.[76]

186. ATCO Pipelines argued that if the UCA was proposing that the Commission rule in this GRA on actual costs which will be applied for in a future GRA, that is an improper request. There was no evidence before the Commission with respect to actual costs for the Opal project.

187. ATCO Pipelines further argued that the Commission cannot fetter the discretion of future Commission panels. Any review of, and decision with respect to, such costs can only be conducted at such time as ATCO Pipelines applies for their inclusion in rate base.

Commission findings

188. On October 23, 2015, the Commission approved, in Decision 20682-D01-2015,[77] the related facilities application with respect to this project. In Decision 20682-D0-2015, the estimated costs for the project increased from the business case estimate of $650,000 to a revised estimate of $1,200,000 due to additional pipeline construction, permanent road development and costs associated with environmental approvals.[78]

189. With respect to the UCA’s concern that the costs may not be accurately reflected due to scope changes for the upgrade to 323 mm Opal Field Transmission from Opal 26-56 Reducer to Redwater Opal Tie-In, the Commission acknowledges this concern as well as ATCO Pipelines’ testimony in response to the panel chair, that it will keep its forecast costs at the amount originally proposed in the application. The exchange regarding the Opal project was:

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[74] Transcript, Volume 2, page 372, lines 11-13.
[75] Transcript, Volume 3, page 685, lines 11-13.
[76] Exhibit 3577-X0333, UCA argument, paragraph 123.
[77] Decision 20682-D01-2015: ATCO Gas and Pipelines Ltd. (South), Valve Assembly Relocation for In-Line Inspection in the Redwater Area, Proceeding 20682, Application 20682-A001, October 23, 2015.
[78] Decision 20682-D01-2015, paragraph 11.

> Q. I just have a few questions here. First one may be directed to Mr. Radke. It's on the Opal project. In Proceeding 20682, ATCO Pipelines has amended the project and proposed a new alternative; is that correct?
>
> A. MR. RADKE: That is correct, yes.
>
> Q. Is it ATCO Pipelines' plan to reflect the changes in the forecast costs in the compliance filing to the GRA application?
>
> A. MR. SHARPE: Needed some accounting advice.
> No. We wouldn't update for compliance. While that one project has gone up, projects go up and down so we would stay with the original forecast.[79]

190. Because the forecast costs are estimates and ATCO Pipelines is not proposing to increase the forecast costs for the scope change in the project, the Commission considers that it is reasonable that the actual costs for the project be reviewed in ATCO Pipelines' next GRA.

191. Accordingly, the Commission approves the forecast costs for upgrade to 323 mm Opal Field Transmission from Opal 26-56 Reducer to Redwater Opal Tie-In, as filed.

4.5.6 Homeglen pipeline ILI

192. ATCO Pipelines proposed to conduct an ILI of the 95 km long 610 mm diameter Homeglen Transmission pipeline using electro-magnetic acoustic transducer (EMAT) technology to inspect for crack features at a total estimated cost of $1,800,000.

193. The CCA stated that ATCO Pipelines is proposing to expend $1.8 million to utilize the same technology and capitalize the expenditure as extending the useful life of the pipeline. The CCA argued that ATCO Pipelines had provided no evidence to revise its previously held position on EMAT in this proceeding, and had provided evidence to the contrary in the UPR proceeding. The CCA submitted that the Commission should disallow any and all costs associated with EMAT inspections, until evidence is filed to validate this technology.

194. ATCO Pipelines explained that a crack detection tool run, EMAT, is required to inspect the entire length of the pipeline, as magnetic flux technology was unable to effectively detect cracking in order to ensure the continued reliable operation of the Homeglen pipeline. Stress corrosion cracking was found at 15 of the 16 excavations with an average of one crack colony per meter of inspected pipe.

195. ATCO Pipelines considered the inspection necessary as the Homeglen Transmission pipeline was built in stages between 1974 and 1978 and has polyethylene tape coating. Tape coating is prone to damage due to soil stress, low temperature limits, poor application and inherent functional flaws, which leads to corrosion damage and stress corrosion cracking susceptibility.

196. In reply to the CCA, ATCO Pipelines noted that the CCA did not sponsor any evidence on pipeline integrity to support its position. ATCO Pipelines explained that while it had recognized in the UPR proceeding that EMAT was an emerging technology and did not replace

79 Transcript, Volume 3, page 685, line 17 to page 686, line 4.

the need for hydro testing in Class 3 and 4 areas, it is not to say that it is not useful in providing certain information in the right circumstances, as ATCO Pipelines confirmed in testimony[80]

Commission findings

197. The Commission approves the forecast ILI capital expenditures and the underlying need to inspect the Homeglen Transmission pipeline, as filed. ATCO Pipelines has provided sufficient support for the requirement for this capital project due to the leaks found on excavations and the location of the pipe. Mr. Sharpe, on behalf of ATCO Pipelines in response to cross-examination, stated:

> A. MR. SHARPE: I believe -- so through the UPR proceeding, we did talk about EMAT a fair bit. And EMAT gives you another indication of the condition of the pipeline. Our prospective and -- is that EMAT, while it gives you more indications on the pipeline cannot be strictly relied upon to say that there is no cracks on the pipeline. You would have to do hydro testing.
>
> So EMAT will give you more information on the line and particularly on Homeglen, where it runs through the Class 1, 2 areas. EMAT can give you -- the EMAT tool can and will give more indications of areas you shall look. I would not personally say that you should rely on EMAT as your only tool and in particularly in high consequence areas.[81]

198. However, it is noteworthy that the business case was lacking cost estimates related to the alternatives and further information would have assisted the Commission with respect to this project.

199. The Commission also notes the business case indicated the project was to be completed in 2014 but an IR response stated it would not be completed until the second quarter of 2015. The Commission acknowledges the updated time frame for completion of the Homeglen ILI.

4.5.7 Hydrogen sulphide (H_2S) warning lights at 45 stations

200. ATCO Pipelines forecast $685,000 in 2015 and $330,000 in 2016 for the installation of a standard H_2S warning light and horn system at 45 stations that could potentially receive natural gas containing H_2S.

201. The CCA submitted that ATCO Pipelines’ business case had not confirmed the contractual status of any of the 45 receipt stations. In addition they incorrectly included eight facilities that are part of the asset swap with NGTL.

202. The CCA submitted that a thorough review had not taken place. Furthermore, the CCA submitted that ATCO Pipelines had not fully considered contractual status of facilities prior to including their costs in this application. ATCO Pipelines also confirmed that there are five dually connected receipt stations, where the producer has ability to deliver to both ATCO Pipelines and NGTL. The CCA believed these facilities have not had their contractual status verified prior to inclusion in the business case, nor was a joint review of the necessity of both receipt stations completed. As such, the CCA did not support their inclusion in this application as they represent a significant and ongoing cost to consumers.

80 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 79.
81 Transcript, Volume 1, page 157, line 17 to page 158, line 6.

203. ATCO Pipelines argued that it had explained in its business case, IR responses and in testimony, the safety benefits for both ATCO Pipelines and the public of upgrading ATCO Pipelines' on-site H_2S warning systems to a consistent standard, one that includes an audible warning capability that is currently not available.

Commission findings

204. ATCO Pipelines provided the following responses to the CCA's counsel in respect of the five dually connected and eight NGTL swap related stations:

> A. MR. SHARPE: All the stations are flowing. I don't know the specifics of the contract status for each station, but none of the stations are shut in or not flowing that we would undertake this work at.
>
> Q. MR. WACHOWICH: Okay. Will they all be flowing at the end of the UPR?
>
> A. MR. SHARPE: I would expect they would be, yes. But I don't know that for sure.
>
> Q. MR. WACHOWICH: Let me come at it this way, sir: Has NGTL been involved in any review of the list of the 45 receipt stations?
>
> A. MR. SCHMIDT: I would just say that we now operate under the NGTL tariff, which includes gas specifications. And if the receipts exceed those requirements, the producers would be shut-in. This is just providing a consistent set of warning equipment at all our sites, this project.
>
> Q. MR. WACHOWICH: And, sir, my question was more to the direction of whether NOVA may have plans that one of the receipt stations is not going to be needed in the near future and ATCO Pipelines would be investing capital in a warning system, which may not have a full life, if I can describe it that way, because the station may become redundant or otherwise out of service?
>
> A. MR. RADKE: So as with any upgrade -- and not just specific that this specific project -- but any improvement or replacement work at an ongoing facility, we always conduct a review to ensure that that facility is going to be required in the future.
> So that would be a part of the design process of this project to consult with either the customer or NGTL on that front.[82]

205. The Commission accepts ATCO Pipelines' business case and efforts to provide adequate H_2S warning systems but finds that ATCO Pipelines did not directly address the CCA's concerns respecting disclosure of the dually connected and NGTL swap stations that require H_2S warning systems. It is clear from the quoted testimony above that there is some doubt as to the need for all of the of the stations to be upgraded in the test years. The Commission is not prepared to accept the forecast capital expenditures in their entirety because there is insufficient confirmation that all 45 stations included in the business case will be required in the test years.

206. For these reasons, the Commission reduces the forecast estimate by the average cost to upgrade eight stations, which results in a disallowance of \$180,444 (i.e. \$1,015,000 / 45 x 8 = \$180,444) split equally between both test years. The Commission directs ATCO Pipelines to

[82] Transcript, Volume 1, page 141, line 2 to page 142, line 7.

reflect this reduction to its capital expenditures for the H_2S warning lights at its stations, in the compliance filing to this decision.

4.5.8 Edmonton office expansion

207. ATCO Pipelines proposed to construct an expansion to its existing ATCO Pipelines Edmonton Centre (APEC) on property owned by ATCO Pipelines at 7210 – 42 Street. The expansion will add approximately 75 workstations in 19,400 ft^2 to accommodate the increased number of Edmonton based permanent office employees. The total cost of the project is estimated at $8,500,000.

208. ATCO Pipelines explained in the business case that the expanded facility:

> … would provide 75 additional workstations, which would return the density per workstation to an acceptable level, permit the reinstatement of conference rooms, reduce ATCO Pipelines' need to lease off-site space, and provide employees with a sufficient level of common space such as washroom facilities, lunchroom, coffee stations, central records storage, and space for common printers and photocopiers. The expansion will include a tie-in to the existing APEC facility; permitting Edmonton based employees to remain centralized at the same location.[83]

209. ATCO Pipelines calculated the 40-year cumulative NPVCOS for the expansion alternative to be $8,225,000 compared with the 40-year cumulative NPVCOS for a lease alternative as $12,743,000, assuming a lease escalation factor of five per cent every five years when the lease is renewed.

210. The CCA requested that the Commission reject the proposed building expansion. The CCA also requested that any future space requirements be evaluated upon the completion of UPR, the asset swap with NGTL and the ILI valve assembly program. The CCA considered that ATCO Pipelines reliance on a significant but unquantified number of positions, related to capital programs and succession planning for the company demographics, made long-term staffing forecasts not reliable.

211. The CCA disagreed with ATCO Pipelines' applied-for future staffing requirements, which rely upon a 40-year comparison. The CCA considered a 40-year period was too long to predict the need for additional staff.

212. The CCA suggested that the Commission should give no weight to the statement that FTEs have been ramped up to support UPR. Given the significant changes in staffing that were not disclosed during the hearing process, the CCA submitted that ATCO Pipelines should be directed to file updated schedules of overhead which is capitalized. These schedules should show how the amount of overhead which is capitalized is derived.[84]

213. In addition, the CCA submitted that ATCO Pipelines should be directed to provide an updated forecast of office space needs for its expected FTEs in the compliance filing.[85]

214. ATCO Pipelines argued that contrary to the CCA's assertion, the increase in internal resources in the test period related to ongoing positions will be required post UPR. ATCO

[83] Exhibit 0002.00.ATCOPIPE-3577, 7.2 Attachment – business cases, PDF page 71.
[84] Exhibit 3577-X0342, CCA reply argument, paragraph 17.
[85] Exhibit 3577-X0342, CCA reply argument, paragraph 19.

Pipelines explained how 23 of the total 46 net additional FTEs in the test period are required on an ongoing basis to support succession planning and ongoing capital programs, including ongoing ILI related work. ATCO Pipelines explained that the remaining 23 net additional FTEs are required to support ongoing operations work related to increased regulatory oversight, increased public safety requirements and asset management.[86]

Commission findings

215. The Commission accepts that the Edmonton office expansion will improve the density per work station and provide space for other office requirements at the same time keeping the staff centralized. The Commission also accepts that building an addition provides a lower cost of service than the costs of leasing equivalent space. However, given the announced employee reductions, the Commission is mindful that the FTE forecasts may no longer support the additional office space for additional personnel at this time.

216. Therefore, ATCO Pipelines is directed to file an update to the Edmonton office expansion business case in the compliance filing to this decision, and the update of FTE requirements. ATCO Pipelines is directed to maintain the capital estimate of $8.5 million for the office expansion as a placeholder.

4.5.9 Asset management projects

217. Throughout the GRA proceeding, ATCO Pipelines emphasized that managing assets is a foundation of its business and has been since ATCO Pipelines began installing assets. Managing assets touches many parts of ATCO Pipelines' business. The 2015 and 2016 projects that are related to asset management include Hyperion, Maximo Phase 2 and enhancements to GIS, PIMS and MMS.

4.5.9.1 Maximo Phase 2

218. ATCO Pipelines explained that Phase 2 of Maximo will commence in 2016 and is forecast to be completed in 2017 at a total cost of $1,250,000. A business case in the application was provided in support of the project, which is intended to add the following capability:

- Track leaks and hazard IDs, surface lease payments, water crossings inspections, and third-party inspections and pipeline crossings;
- Automate time entry;
- Increase the type of assets tracked (e.g. fleet);
- Increase the groups using Maximo.[87]

219. ATCO Pipelines stated that the original project to implement Maximo has been a success and encompasses key above ground assets on the pipeline system. The main business drivers of implementing Maximo were:

- To provide the ability to audit records that have been entered into the system;

[86] Exhibit 3577-X0328, ATCO Pipelines argument, paragraphs 106 and 109.
[87] Exhibit 0002.00.ATCOPIPE-3577, (Maximo – Information System Enhancements), page 119.

- To provide the ability to ensure that maintenance activities can be tracked and verified as completed to meet both internal requirements and external regulatory requirements;
- Implementing Maximo eliminated the need to upgrade other small systems in place at the time that were not compliant with Windows 7;
- Implementing leading COTS (commercial off the shelf) software.[88]

220. ATCO Pipelines argued that the Maximo solution is intended to be the enterprise-wide central repository for pipeline and facility maintenance data. This will enable management to better budget and estimate resources required to ensure that maintenance activities are completed within their planned maintenance schedules.

4.5.9.2 Hyperion

221. ATCO Pipelines' business case proposed to:

> … implement a Hyperion based Budgeting and Planning system to support ATCO Pipelines capital budgeting and forecasting, operating and maintenance (O&M) budgeting and planning. The system will be used to provide four major functions: the production of annual business plans and forecasts; the development of regulatory applications; the production of the monthly current forecast; and modeling and simulation capabilities through the use of multiple scenarios to perform what-if analysis.[89]

222. The total cost of the project was estimated at $1,600,000, with ongoing costs estimated to be approximately $150,000 annually.

223. ATCO Pipelines explained that it currently utilizes Excel based financial models to support its short-term financial budgeting and longer-term planning and forecasting requirements. ATCO Pipelines stated that these models and the supporting processes have been developed and modified over a number of years and now rely on in excess of 100 spreadsheets to achieve the level of consolidation and sophistication in forecasting and modeling required by ATCO Pipelines. This "system" is both labour intensive and highly dependent on user knowledge and experience.

224. ATCO Pipelines made the following comments on what would occur if the project were not to proceed:

> The risk of not proceeding is primarily in the adverse impacts caused by human error in working with manual processes managing multiple versions of a multitude of spreadsheets. The current Excel spreadsheets are used for the production of annual business plans and forecasts; the development of regulatory applications; reflect impact of regulatory decisions; and the production of the monthly current forecast. Errors in regulatory applications will impact ATCO Pipeline's earnings and reputation due to the over or under stating revenue requirements.[90]

225. ATCO Pipelines stated that the expected benefits of the new system will be to reduce the risks in the current process and streamline the current planning, budgeting and forecasting processes in ATCO Pipelines. Expected key benefits are accuracy, timeliness, flexibility,

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[88] Exhibit 0002.00.ATCOPIPE-3577, (Maximo – Information System Enhancements), page 119.
[89] Exhibit 0002.00.ATCOPIPE-3577, (Capital and O&M Budgeting, Planning and Forecasting System), page 114.
[90] Exhibit 0002.00.ATCOPIPE-3577, (Capital and O&M Budgeting, Planning and Forecasting System), page 117.

responsiveness, version control, authorization, security, better training, efficiency improvements and reduced cost overruns.

4.5.9.3 GIS, PIMS and MMS

226. ATCO Pipelines submitted that in order to perform necessary integrity and risk analysis of the high pressure network, there was an increasing requirement for orderly, effective organization and storage of an increasingly larger set of pipeline and related asset data as well as associated operating performance data. ATCO Pipelines stated that this drives the need for expenditures in key IT systems during the test period, including GIS, PIMS and MMS.

227. ATCO Pipelines noted that given that these projects did not exceed the Commission's $500,000 threshold for business cases therefore this level of detail was later provided to the Commission through information requests. ATCO Pipelines submitted that the information demonstrated ATCO Pipelines' level of commitment to ongoing review and improvement of its existing IT applications in order to manage data with increased effectiveness and efficiency. ATCO Pipelines elaborated generally on its IT systems and emphasized that enhancements for these systems scheduled for the test period are required independent of the ISO 55001 initiative.

228. ATCO Pipelines noted that the forecast expenditures related to Information Systems were $3.35 million over the test period relate to Maximo Phase 2 and enhancements to GIS, PIMS and MMS. ATCO Pipelines emphasised that these were enhancements to systems that were currently in use. ATCO Pipelines identified the forecast expenditures to enhance these systems as part of its asset management activities. However, it is critical to understand that these enhancements will be required independent of the ISO 55001 initiative. The forecast expenditures of $3.35 million related to these systems stand on their own merits.

229. Calgary indicated that ATCO Pipelines' proposed "asset management" expenditures were approximately $5.0 million. Calgary provided a table summarizing the expenditures for three FTEs, asset management consultants and for the following information systems: Maximo Phase 2 and system enhancements to GIS, PIMS and MMS.[91]

230. Calgary considered that the forecast expenditures planned by ATCO Pipelines to support its asset management proposal were not supported by quantification of any benefits. Calgary noted that although ATCO Pipelines had provided business cases for both Hyperion and Maximo Phase 2, both were inadequate and neither case had included any quantified benefits.

231. In particular, with respect to Hyperion, Calgary considered the lack of quantified support for the claim that Hyperion would minimize potential error, shorten budget cycles and perform "what-if" analysis and improve productivity to reduce overtime, was reason enough to deny including the proposed $1.6 million in capital expenditures during the test period.

232. Similarly, with respect to Maximo Phase 2, ATCO Pipelines' claims of efficiency gains were not supported by a cost-benefit analysis. Calgary submitted that without quantification of the benefits there was no justification to approve the $0.75 million expenditure during the test period.

[91] Exhibit 3577-X0227, Calgary evidence, Q10/A10, pages 8-9.

233. Calgary recommended that the Commission disallow $4.95 million in forecast IT project capital costs that are in support of ATCO Pipelines' asset management proposal for the 2015-2016 test years made up of the following:

(i) Maximo Phase 2 – $0.75 million;
(ii) GIS, PIMS, MMS for data and system enhancements – $2.6 million;
(iii) Hyperion – $1.6 million.[92]

234. The CCA observed that ATCO Pipelines had provided, in response to AP-AUC-2015FEB03-029(a), a list of general capital projects. Included were three system enhancements projects including GIS, PIMS and MMS. Each of the costs for these three projects was divided between 2015 and 2016, with each year's expenditures below $500,000. The CCA took exception to ATCO Pipelines' apparent practice to break-up projects, or phases of projects, to avoid their consideration in a larger business case. As such, the CCA submitted that the three system enhancements projects should be excluded from rate base as ATCO Pipelines had failed to properly document the need for these projects in order to allow for an adequate regulatory review. Business cases should have been provided for the three projects.[93]

235. ATCO Pipelines submitted that the Hyperion and Maximo Phase 2 business cases were not deficient. ATCO Pipelines argued that these business cases were in the same format and provided the same level of information as the business cases that supported the implementation of IT systems, including Maximo Phase 1, in the last GRA.[94]

236. ATCO Pipelines stated it had indicated in AP-UCA-2015FEB03-039, that IT capital project expenditures in the category IT Projects – General consist of IT projects less than $500,000 and typically include enhancements to existing systems. Further details of general IT project costs were provided in the attachment to AP-AUC-2015FEB03-029(a). ATCO Pipelines stated that these costs were made up of discrete projects within each year, with each project having a set or defined scope costing less than $500,000 for the purpose of improving or enhancing the functionality or usability of a software application, whose need had already been approved.

237. ATCO Pipelines stated that it had provided detailed information, through its business cases, on IT capital projects forecast to cost $500,000 or more. ATCO Pipelines submitted that this was the Commission's traditional threshold for business cases set over a decade ago. It represented a materiality test in the provision of detailed information, intended to balance the effort and time required to supply information against the significance of the costs involved. It is not in the interests of regulatory efficiency to expend excessive time and money on providing detailed information on every dollar of forecast costs.

238. ATCO Pipelines considered that "CCA's assertion that ATCO Pipelines was "breaking up smaller [likely meant larger] projects to circumvent the $500,000 threshold is without merit and should be summarily rejected by the Commission."[95] The projects in question are discrete, smaller projects. ATCO Pipelines noted that the Commission had directly addressed the issue of when projects are considered discrete for business case purposes in the last GRA.

92 Exhibit 3577-X0227, Calgary evidence, Q36/A36, pages 25-26.
93 Exhibit 3577-X0331, CCA argument, paragraphs 48-49.
94 Exhibit 3577-X0328, ATCO Pipelines argument, paragraph 162.
95 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 85.

Commission findings

239. The Commission has reviewed the response to AP-AUC-2015FEB03-029(a) and is of the view that the GIS, PIMS and MMS enhancements are not insignificant, given the total amount of the forecast capital expenditures for these IT projects in 2015 and 2016. While ATCO Pipelines stated that each of these projects is discrete, they are all related to improving ATCO Pipelines' asset management and each have a forecast expenditure totaling $900,000 during the test years. The Commission agrees with interveners that a more detailed explanation of the GIS, PIMS and MMS enhancements is required. While these expenditures are less than $500,000 on an individual year basis for each project, the cumulative effect of these projects could be significant within the test period and going-forward.

240. In respect of both Hyperion and Maximo Phase 2, the Commission agrees with Calgary that ATCO Pipelines has failed to adequately quantify any benefits associated with the significant capital costs of both projects. Based on the evidence filed in this proceeding, the Commission finds that the Hyperion and Maximo Phase 2 forecast capital expenditures are not adequately justified. The total forecast project costs for Maximo Phase 2 were $1,250,000 and Hyperion total project costs were estimated at $1,600,000, with ongoing costs for Hyperion estimated to be approximately $150,000 annually. While there may be benefits associated with the implementation of these IT projects, the business cases did not provide sufficient information for the Commission to weigh the expected benefits against the forecast costs associated with these projects.

241. Accordingly, the costs for the above IT projects are denied. ATCO Pipelines is directed to remove the capital expenditures totaling $4.95 million from the test years.

4.6 NGTL/ATCO Pipelines asset transfer

242. ATCO Pipelines and NGTL are both owners and operators of natural gas transmission assets in Alberta. On October 1, 2011, ATCO Pipelines implemented integration with NGTL on a commercial basis. The remaining step to integration is the exchange of assets so that ATCO Pipelines and NGTL will own and operate assets within their respective areas. The exchange of assets (asset swap) was approved in principle by the Commission in Decision 2010-228[96] and by the National Energy Board (NEB) in Decision RHW-1-2010 and then subsequently approved by the Commission in Decision 2012-310[97] and by the NEB on October 16, 2014.[98] The NEB issued a Certificate of Public Convenience and Necessity, CPCN Order GC-123, on December 16, 2014.[99]

243. ATCO Pipelines is transferring 393 pipeline segments totaling 1,249 km in length and is receiving 171 pipeline segments totaling 1,440 km in length. ATCO Pipelines will acquire 85 net[100] new meter stations and will transfer one compressor station.[101] The tentative asset swap schedule and a summary of assets to be exchanged are provided in the table below:

96 Decision 2010-228: ATCO Pipelines, 2010-2012 Revenue Requirement Settlement and Alberta System Integration, Proceeding 223, Application 1605226-1, May 27, 2010.

97 Decision 2012-310: ATCO Gas and Pipelines Ltd., Asset Swap Application, Proceeding 1723, Application 1608166-1, November 22, 2012.

98 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.7, page 1 of 3.

99 Exhibit 3577-X0279, AP-UCA-2015FEB03-021(a).

100 Per AP-AUC-2015MAY21-005(b) in Exhibit 3577-X0161, ATCO Pipelines is gaining 115 additional stations and losing 30 stations as result of the asset swap which nets out to a gain of 85 stations.

Table 11. Tentative asset swap schedule and summary of asset types to be exchanged

Event	Timing	ATCO Pipelines assets to NGTL	NGTL assets to ATCO Pipelines
AUC decision on AP's asset swap application	November 22, 2012		
NEB decision on NGTAL's asset transfer application	October 16, 2014		
CPCN issued	December 16, 2014		
Completion of Tranche 1 transfer	Q3 2015	87 pipe segments, 14 meter station, 1 compressor station	8 pipe segments, 9 meter stations
Completion of Tranche 2 transfer	Q1 2016	141 pipe segments, 6 meter stations	65 pipe segments, 51 meter stations
Completion of Tranche 3 transfer	Q3 2016	110 pipe segments, 1 meter station	35 pipe segments, 15 meter stations
Completion of Tranche 4 transfer	Q4 2016	55 pipe segments, 9 meter stations	63 pipe segments, 40 meter stations
Monetary adjustment for net book value differences	Q1 2017		

244. The transitional operating agreement[102] outlines the process by which the exchange of assets will occur and the swap will occur in four tranches. The ownership of the assets in each tranche will be transferred at the closing date for each tranche and the assets will be transferred at their net book values, which will result in a forecast monetary adjustment of $1.2 million to ATCO Pipelines.[103] The monetary adjustment is expected to have a negligible impact on ATCO Pipelines' 2016 revenue requirement because the intent is that assets of equivalent values will be exchanged between ATCO Pipelines and NGTL.[104] As such, ATCO Pipelines has included zero dollar placeholders in the application for any potential revenue requirement impact resulting from any difference in net book values of the assets exchanged between NGTL and ATCO Pipelines at the completion of the fourth tranche. Any true-up of these zero placeholders will be captured in the NGTL integration deferral account.[105]

245. At the conclusion of each tranche of the transfer, non-monetary adjustments will be booked by both ATCO Pipelines and NGTL related to the NGTL-ATCO Pipelines asset transfers. The final net book value difference will be settled via monetary adjustments. The non-monetary adjustment will be reflected as an adjustment to net plant, property and equipment in ATCO Pipelines' financial statements with the offset booked as a regulatory asset/liability. For international financial reporting standards purposes, this regulatory asset/liability will be booked as an adjustment to publicly reported net income.[106]

246. The asset swap results in a change to ATCO Pipelines' annual O&M expenses and some one-time capital and expenses. These are set out in the table below:[107]

101 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.7, page 3 of 3.
102 Filed in this proceeding in Exhibit 3577-X0061, AP-AUC-2015FEB03-018(c) Attachment 1.
103 Exhibit 3577-X0283, AP-UCA-2015FEB03-057(c) Attachment. Derived from net book value of transferred assets as at December 31, 2012 (ATCO assets transferring to NGTL) – (NGTL assets transferring to ATCO).
104 Exhibit 3577-X0283, AP-UCA-2015FEB03-057(c).
105 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.7, pages 2-3 of 3.
106 Exhibit 3577-X0033, AP-CCA-2015FEB03-003(a)-(b).
107 This information was provided in response to AUC Direction 10 from Decision 2013-430.

Table 12. Estimated costs and savings from integration 2010-2016

	2010 actual	2011 actual	2012 actual	2013 actual	2014 estimate	2015 forecast	2016 forecast	Total
	($000)							
One time capital								
SCADA[1]	-	-	-	-	-	2,020	480	**2,500**
Signage	-	-	-	-	-	75	100	**175**
Total capital	-	-	-	-	-	2,095	580	**2,675**
Capital revenue requirement	-	-	-	-	-	377	481	**858**
One time O&M								
Mapping						150	50	**200**
Land (assignment/transfers)	-	578	469	5	20	500	400	**1,972**
Records management	-	-	-	-	-	100	50	**150**
Property tax – consultant	-	-	-	-	-	30	120	**150**
Fixed asset transfers – consultant	-	-	-	-	-	123	30	**153**
Employee severance	-	105	45	-	-	-	-	**150**
Legal	396	631	75	8	102	-	-	**1,212**
Total one time O&M	**396**	1,314	589	13	122	903	650	**3,987**
Annual O&M								
Reduced labour costs	-	(679)	(3,128)	(3,128)	(3,128)	(3,128)	(3,128)	**(16,319)**
Office space	-	(48)	(198)	(198)	(200)	(200)	(200)	**(1,044)**
IT/Phone	-	(21)	(96)	(96)	(100)	(100)	(100)	**(513)**
STAR system	-	0	(300)	(700)	(700)	(700)	(700)	**(3,100)**
Gas Alberta service agreement	-	(64)	(385)	(385)	(385)	(385)	(385)	**(1,989)**
Misc. (i.e., travel, training)	-	(24)	(100)	(100)	(100)	(100)	(100)	**(524)**
Total annual O&M	-	**(836)**	**(4,207)**	**(4,607)**	**(4,613)**	**(4,613)**	**(4,613)**	**(23,489)**
Annual cost of capital	-	-	(3,150)	(3,150)	(3,150)	(3,150)	(3,150)	**(15,750)**
Annual cost (savings)	396	478	(6,768)	(7,744)	(7,641)	(6,483)	(6,632)	**(34,394)**
Cumulative costs (savings)	396	874	(5,894)	(13,638)	(21,279)	(27,762)	(27,911)	

Source: Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 6.1 Attachment 4, Table 1.
Note 1: Supervisory control and data acquisition.

247. ATCO Pipelines noted that this analysis does not include ATCO Pipelines' costs that are offset by NGTL savings which results in no net effect on the Alberta system cost of service.[108]

248. The one time O&M costs for the property tax consultant and fixed asset transfers consultant are required to process the transfer of records associated with the NGTL and ATCO Pipelines asset transfers.

249. The one-time capital costs of $2.675 million are for installing signage on the pipelines acquired from NGTL and installing communications equipment at station facilities to allow communication from these sites to ATCO Pipelines' control centre. The total capital costs also include a removal cost of $125,000.[109] The removal costs include labour required for the removal of existing NGTL communications equipment that is incompatible with ATCO Pipelines' SCADA system.[110]

108 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 6.1 Attachment 4, page 1 of 3.
109 Exhibit 0002.00.ATCOPIPE-3577, Business cases, page 73.
110 Exhibit 3577-X0064, AP-AUC-2015FEB03-038(c).

250. The impact of the asset swap in the test period is a net cost of $2.2 million to ATCO Pipelines due to higher land rights payments being transferred and due to receiving 85 metering stations. This has no net effect on the Alberta system cost of service because NGTL no longer incurs the $1.6 million land payments or has to operate the 85 stations being transferred.[111]

Commission findings

251. For the purposes of this application, the Commission reviewed the updated cost impact to ATCO Pipelines through one-time capital, one-time O&M and annual O&M costs. As stated by ATCO Pipelines, the net O&M costs to ATCO Pipelines during the test period are $2.2 million and a one-time improvement capital expenditure of $2.8 million. The Commission considers that the transfer of assets between ATCO Pipelines and NGTL has been approved by both the Commission and the NEB.

252. The Commission is cognizant that some one-time costs are required in order to complete the asset transfers and considers that largely, the impact of net new annual costs is negligible as they are a "transfer" of costs from NGTL to ATCO Pipelines, and vice versa, due to the transfer of assets. The Commission approves the O&M costs and the one-time capital expenses associated with integration with NGTL.

253. It should be noted that, as stated in ATCO Pipelines' application, the difference in net book value of assets will be trued up though the NGTL integration deferral account in a future proceeding. For the purposes of this application, the Commission approves ATCO Pipelines' placeholder amount of zero.

5 Necessary working capital

254. ATCO Pipelines submitted that a review of its lead-lag study indicated that there were no material changes that would warrant a change to the lead-lag days, which were approved in ATCO Pipelines' 2013-2014 GRA.[112]

255. In this proceeding, ATCO Pipelines requested that the Commission approve the removal of deferral account balances from the calculation of necessary working capital (NWC), and instead allow ATCO Pipelines to accrue monthly carrying costs on all Commission approved deferral accounts.

256. The UCA recommended an adjustment to ATCO Pipelines' NWC to reflect the fact that ATCO Pipelines has historically capitalized the majority of its capital additions well after mid-year, and the adjustment should be done in a way that would preserve the mid-year convention.

257. The UCA observed that consistent with past practice, ATCO Pipelines' applied-for revenue requirement includes NWC amounts of $27,949,000 for 2015 and $30,012,000 for 2016. These NWC amounts include depreciation and common equity return.

[111] Exhibit 3577-X0283, AP-UCA-2015FEB03-057(b).
[112] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 2.4, pages 4-5 of 7.

258. The UCA noted the following, with respect to its witness' evidence:

> Mr. Bell explained that "if one wants to include depreciation and equity return in the NWC [necessary working capital] calculation to match cash flows and preserve the mid-year convention, then all material cash flows that may deviate from the mid-year convention must also be included in the NWC analysis". Mr. Bell noted that if average capital additions are later than mid-year (as his evidence demonstrated they have been, historically), then ratepayers are effectively being forced to pay for capital that is not in place, to the benefit of AP shareholders.[113] [footnotes omitted]

259. During cross-examination by Commission council, Mr. Bell also stated:

> My recommendation is to include an adjustment to working capital to account for the lag days in capital additions that allows the Commission to preserve the midyear convention in this proceeding. The Commission may then deliberate on whether there's something in this that says we want to look at the mid-year convention as an industry-wide conversion. Or if they wanted to do something in this decision, it's at their discretion, but my recommendation is to preserve the mid-year convention.[114]

260. The UCA explained that under the mid-year convention, capital additions are assumed to occur regularly through the year. That presumption underpins calculations like mid-year net plant, calculated by averaging opening and closing net plant balances. Mid-year net plant is in turn used to calculate the utility's return. The UCA added, "Material cash flows that may not reflect the presumption that they occur evenly throughout the year are tracked in the lead-lag study and included in the net working capital calculation, to avoid overcompensating the utility due to a mismatch of cash flows."[115]

261. In response to AP-UCA-2015MAY21-092(b),[116] in which ATCO Pipelines provided its capital additions by month, Mr. Bell explained that when looking at the actual capital expenditures in that response, it appeared that there was a definite pattern of capital additions that occurred later in the year. On average, Mr. Bell provided that ATCO Pipelines does not capitalize 50 per cent of its annual capital additions until part way through October. If the mid-year convention was an accurate assumption, one would expect that, on average, ATCO Pipelines would capitalize about 50 per cent of its capital expenditures at approximately mid-year. Mr. Bell asserted that the analysis clearly demonstrated that, on average, the mid-year assumption was not valid.[117]

262. The UCA noted that all other major cash flows are already present in ATCO Pipelines' NWC calculations in Tables 2.4-1 and 2.4-2 of its application.[118] Table 2.4-2 included the following list of items that are identical in principle to the cash flow associated with capital additions. The following list includes all major cash flows except capital. The only major missing item from this list is the timing of capital additions. Once the timing of capital additions is included, all major cash flows will be included in ATCO Pipelines' NWC calculation.[119]

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113 Exhibit 3577-X0333, UCA argument, paragraph 88.
114 Transcript, Volume 4, page 759, line 19 to page 760, line 3.
115 Exhibit 3577-X0346, UCA reply argument, paragraph 41.
116 Exhibit 3577-X0212 and Exhibit 3577-0213.
117 Exhibit 3577-X0224, R. Bell evidence for UCA, Q11/A11, pages 9-10.
118 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 2.4, pages 2-3 of 7.
119 Exhibit 3577-X0346, UCA reply argument, paragraphs 44-45.

- **Cash expenses**:
    - Operating and Maintenance;
    - Income Tax Installments; and
    - Franchise & Property Tax;

- **Financial items:**
    - Debt Interest;
    - Preferred Dividends;
    - Common Returns – Dividends;
    - Common Return - R.E.; and
    - Depreciation Expense;

- **Adjustments:**
    - Materials and Supplies;
    - Unamortized Debt and Preferred Discount;
    - Line Pack;
    - Salt Cavern Peaking Working Gas;
    - Future Income Tax;
    - Future Income Tax Regulatory Asset; and
    - Other.

263. The UCA submitted that, in accordance with Mr. Bell's recommendations and in order to preserve the mid-year convention in relation to capital additions, the Commission should make an adjustment to ATCO Pipelines' applied-for NWC, reducing it by $2,800,000 in 2015 and $2,900,000 in 2016.[120]

264. ATCO Pipelines argued that while the UCA appeared to suggest that it is supportive of maintaining the mid-year convention during the test period for capital additions, its requested cost disallowance based on a working capital adjustment effectively overrides the mid-year convention for capital additions.

265. ATCO Pipelines submitted that NWC did not capture all timing differences and should not be changed in isolation for only rate base additions without reviewing other elements of the mid-year convention. ATCO Pipelines considered it inappropriate to change the convention for ATCO Pipelines alone, and any change is best introduced in a common proceeding.[121]

266. ATCO Pipelines observed that the Commission had confirmed the appropriateness of the mid-year convention for capital additions and capital expenditures for EPCOR Distribution & Transmission Inc. in Decision 3539-D01-2015.[122]

267. ATCO Pipelines, therefore, submitted that the mid-year convention remains appropriate for the ATCO Pipelines system.

Commission findings

268. The Commission is satisfied that the UCA's proposal is not to deviate from the mid-year convention as confirmed by Mr. Bell. Mr. Bell's concern relates to the timing of capital additions late in the year. What Mr. Bell has proposed is essentially to adjust the NWCs lead-lag study to

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[120] Exhibit 3577-X0333, UCA argument, paragraph 95.
[121] Exhibit 3577-X0265, ATCO Pipelines rebuttal evidence, paragraphs 26-32.
[122] Decision 3539-D01-2015, paragraph 774.

account for lag days in capital additions, as evidenced by the following table provided in response to UCA-AP-2015SEP03-001:[123]

Table 13. UCA proposal to include capital additions in NWC lead-lag study

($000)	2015	2016	Reference
Lag days	101.42		
Calendar days	365		
Ratio	0.2779		
Capital additions	302,097	320,335	Exhibit 3577-X0212
	83,942	89,009	
Return	6.63%	6.63%	Exhibit 3577-X0010.02-Sch 3.1-1
Mid-year NWC impact	2,783	2,951	

269. In respect of the above table, Mr. Bell provided the following:

> If average capital additions are later than mid-year, then customers are paying for capital that is not in place. The utility is therefore over-compensated, and there should be a reduction for the first year additions in response. Assuming a linear capitalization of additions in October, this results in 9.42 days into October that AP capitalizes its assets, resulting in 101.42 lag days between mid-year and actual capital additions. This difference must be included in the NWC calculation to avoid over-compensation of approximately $2.8 million in 2015 and $2.9 million in 2016.[124]

270. ATCO Pipelines pointed out that in a previous decision the Commission had not accepted a similar argument by the UCA in respect of EPCOR Distribution & Transmission Inc. However, in that proceeding it was not as evident as it is in this case that for ATCO Pipelines the capital additions, on average, routinely fall after the mid-year.

271. Although actual capital additions lag the mid-year, the Commission is not persuaded to revise the calculation of NWC given the recent finding by the Commission in Decision 3539-D01-2015:

> The Commission agrees with EDTI that the additional tracking proposed by the UCA would add unnecessary complexity. Consistent with Decision 2012-237, the Commission finds that it is a long-standing convention of the Commission and its predecessors to use the mid-year convention for capital additions and capital expenditures. The mid-year convention is a reasonable method to account for capital-related costs over the entire year, while recognizing that some assets are added to rate base prior to mid-year and some assets are added to rate base after mid-year. The Commission agrees with EDTI that the mid-year convention does not mean that all capital additions in every year are exactly evenly spread. Therefore, the Commission does not find that directing EDTI to provide capital additions and expenditures by month is necessary to adequately test the impact of capital additions and expenditures related to working capital and included in the forecast revenue requirement in a given year.[125]

[123] Exhibit 3577-X0248, UCA-AP-2015SEP03-001.
[124] Exhibit 3577-X0224, R. Bell evidence for UCA, Q13/A13, pages 9-10.
[125] Decision 3539-D01-2015, paragraph 774.

272. The Commission considers that the use of the mid-year convention is an accepted practice for treating capital additions and considers any inclusion of capital additions in NWC would require a more comprehensive review of the applicability of the mid-year convention for capital related items. Therefore, ATCO Pipelines is directed to further explain, in its next GRA, why its capital additions lag the mid-year convention and whether on a go-forward basis it is, or is not, appropriate to include capital additions or other capital related items in NWC. Subject to any other findings included in this decision, the NWC forecasts for the test years are approved, as filed.

6 Operating costs

273. ATCO Pipelines' revenue requirement includes operating costs, which are composed of O&M costs and administration and general (A&G) costs. ATCO Pipelines forecasts total operating costs of $64,682,000 in 2015 and $70,086,000 in 2016. In the 2015 and 2016 test years, the total operating expenses represent approximately 31 and 28 per cent, respectively, of ATCO Pipelines' forecast revenue requirement.

Table 14. Total operating expenses

	2010 actual	2011 actual	2012 actual	2013 actual	2014 actual	2015 test period	2016 test period
	($ million)						
Operations and maintenance	40.6	45.2	29.3	30.9	28.0	34.4	38.5
Administration and general	25.0	24.0	26.5	29.9	26.9	32.3	33.5
Operating costs – Corporate (subtotal)	**65.6**	**69.2**	**55.8**	**60.8**	**54.9**	**66.7**	**72.0**
Less disallowed operating costs	1.5	1.1	1.3	4.7	3.5	2.0	2.0
Total operating costs – utility	**64.1**	**68.1**	**54.5**	**56.1**	**51.3**	**64.7**	**70.1**

Source: Exhibit 3577-X0182, Schedule 4.2.1-1 and Exhibit 3577-X0039, AP-CAL-2015FEB03-053(b) Attachment.

6.1 Direct operation and maintenance expenses

274. O&M costs include the labour and supplies costs related to the operation and maintenance of ATCO Pipelines'transmission lines, compressors, measuring and regulating stations and facilities and control and communication systems.[126]

275. ATCO Pipelines' O&M costs have been adjusted for costs previously disallowed by the Commission. These costs include signature rights, medium-term and long-term incentive program costs (MTIP/LTIP), donations and sponsorships, corporate costs and the pension cost of living allowance (COLA) adjustment costs in excess of the Commission's allowed COLA increases.[127]

126 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2, page 1of 4.

127 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.11, page 1 of 2. Disallowed operating costs are separate from non-utility costs which are removed from the total revenue requirement and include return on rate base and income tax amounts attributable to costs incurred for non-utility functions.

276. The following table presents the forecast total O&M expenses for the period 2015 and 2016 and the years preceding the test period. From 2010-2012, ATCO Pipelines' revenue requirement was determined in a negotiated settlement process.

Table 15. O&M expenses

	2010 actual	2011 actual	2012 actual	2013 actual	2014 actual	2015 forecast	2016 forecast
	($ million)						
Actual or forecast[128]	**40.4**	**45.2**	**29.3**	**29.2**	**27.8**	**33.8**	**38.0**
$ Increase		4.8	(15.9)	(0.1)	(1.4)	6.0	4.2
% Increase		11.9	(35.2)	(0.3)	(4.8)	21.6	12.4

Source: Exhibit 3577-X0182, Schedule 4.2.1-1 and Exhibit 3577-X0064, AP-AUC-2015FEB03-077(b) Attachment.

277. The table demonstrates that actual O&M costs have decreased by 31 per cent between 2010 and 2014 but that O&M costs are forecast to increase by 22 and 12 per cent in 2015 and 2016, respectively.

278. ATCO Pipelines indicated in response to an IR that, while actuals have been provided, it is unable to break out components of the forecast revenue requirement between 2010 and 2012 because it was operating under a negotiated settlement.[129]

279. In response to an IR regarding the impact of declining oil prices and the decline in the level of economic activity in Alberta, ATCO Pipelines stated that the key drivers of O&M costs are the provision of safe and reliable service, the increasing complexity of ATCO Pipelines' pipeline system and operating environment and ATCO Pipelines' labour force demographics. The price of oil and the current economic climate will have little impact on the execution of ATCO Pipelines' programs and, as such, will have little impact on O&M costs.[130]

128 These amounts are net of disallowed operating costs.
129 Exhibit 3577-X0064, AP-AUC-2015FEB03-077(b) Attachment.
130 Exhibit 3577-X0060, AP-AUC-2015FEB03-002.

280. ATCO Pipelines grouped its O&M expenses into the cost categories shown in the table below:

Table 16. Transmission operating expenses increase summary

	($ million)	2014 actual ($)	2014 increase ($)	2014 increase (%)	2015 costs ($)	2015 increase ($)	2015 increase (%)	2016 costs ($)	2016 increase ($)	2016 increase (%)
1	Fringe benefit transmissions labour	3.46	(1.57)	(31.3)	3.72	0.26	7.5	3.85	0.13	3.5
2	Salt cavern operation	0.75	(0.04)	(5.1)	1.00	0.25	33.3	1.03	0.03	3.0
3	Underground storage - compressors	0.08	0.08	0.0	0.27	0.19	237.5	0.27	0.00	0.0
4	Transmission operations	7.90	(0.75)	(8.7)	9.77	1.87	23.7	10.25	0.48	4.9
5	Pipeline operations	9.45	0.05	0.5	12.19	2.74	29.0	14.75	2.56	21.0
6	Compressor operations	1.67	(0.13)	(7.2)	1.97	0.30	18.0	2.11	0.14	7.1
7	Measurement and regulating	5.04	(0.06)	(1.2)	5.67	0.63	12.5	6.50	0.83	14.6
8	Transmission other	0.99	(0.07)	(6.6)	1.07	0.08	8.1	1.10	0.03	2.8
9	Cost of providing service	1.85	0.11	6.3	1.92	0.07	3.8	1.98	0.06	3.1
10	Recovery of costs	(2.82)	(0.19)	(7.2)	(3.21)	-0.39	13.8	(3.30)	-0.09	2.8
11	Less disallowed operating costs	(0.55)	1.16	68.2	(0.55)	0.00	0.0	(0.55)	0.00	0.0
	Total	**27.8**	**(1.41)**	**(4.8)**	**33.8**	**6.00**	**21.6**	**38.0**	**4.20**	**12.4**

Source: Exhibit 3577-X0182, Schedule 4.2.1-2 and Exhibit 3577-X0064, AP-AUC-2015FEB03-077(c) Attachment.

281. ATCO Pipelines explained the differences in forecast costs for the major O&M categories, for the test period, as follows.

282. Transmission function costs have been split between internal labour costs and external supply costs. ATCO Pipelines forecast transmission labour expenses of $16.781 million and $18.095 million in 2015 and 2016, respectively, as compared against 2014 actuals of $13.856 million.[131] The forecast transmission labour expenses are higher due to annual labour inflation and growth in FTE positions.[132] Labour cost components of O&M will be discussed further in Section 6.2 below.

283. The increases in underground storage compressors shown in Table 16 during the test period are due to area maintenance activity on the NGTL system, which has resulted in lower than normal pressures at the Inland and Norma tie-in locations and has resulted in increased operations at the Salt Cavern facility over the winter period. As a result, ATCO Pipelines has implemented a 24 x 7 shift of employees on site during the winter period. ATCO Pipelines has also implemented improvements that allow it to inject gas during non-peak times during the winter which provides greater availability but requires compressions and increases electricity costs.[133]

284. With respect to training and mentoring costs, these costs are tracked under transmission operations. The forecast for training expenses in 2015 is $1.0 million, which includes $0.4

[131] Exhibit 3577-X0171, AP-AUC-2015MAY21-004 Attachment 3.
[132] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.3, pages 3-4 of 7.
[133] Exhibit 3577-X0064, AP-AUC-2015FEB03-080.

million for Incident Command System (ICS) training, and the forecast for training expenses in 2016 is $0.7 million which includes $0.1 million for ICS training.[134]

285. ATCO Pipelines forecast increases to transmission supplies for the 2015 and 2016 test years of $17.583 million and $20.453 million, respectively, as compared to 2014 actuals of $14.105 million. ATCO Pipelines explained that transmission supplies include the following expenses: contract services, utilities, company vehicles, fringe benefits, travel, accommodations and meals, the NGTL asset swap and materials, equipment and tools. Transmission supply costs are forecast to increase largely due to increases in contract services, utilities, the NGTL asset swap and materials, equipment and tools.[135] These costs will be discussed further in Section 6.3 below.

286. One June 22, 2015, ATCO Pipelines provided an update to its application however, there were no updates to O&M costs.[136]

287. None of the interveners submitted views on the overall forecast O&M costs.

Commission findings

288. The Commission has examined the evidence on the record of this proceeding respecting ATCO Pipelines' forecast O&M costs. In having reviewed the forecast O&M costs, the application, responses to IRs, the oral testimony, the argument and reply argument submitted by parties and other information, the Commission approves ATCO Pipelines' forecast O&M costs for the years 2015 and 2016, subject to any adjustments arising from the findings for those O&M costs components specifically identified in the sections below.

6.2 O&M labour costs

289. O&M labour costs are forecast to be higher in 2015 and 2016 primarily due to annual labour inflation and growth in FTE positions. In addition to growth in the number of FTEs, ATCO Pipelines anticipated recruiting replacements for a number of retirements over the next several years, which requires increased training and mentoring to integrate new hires into ATCO Pipelines.[137]

290. O&M labour is classified by activity, namely salt cavern operations, gas control, customer and pipeline system support, engineering and planning, pipeline operations, safety and training, compressor operations and measurement and regulating operations. Increases in labour costs due to wage inflation are discussed in Section 6.2.1 below and increases in labour costs due to the addition of FTE positions is discussed in Section 6.2.5 below.

Commission findings

291. As discussed in Section 6.3.1 below, the expenses for the gap analysis for implementation of ISO 55001 were denied. ATCO Pipelines is therefore directed to remove any O&M labour expense associated with this project in the compliance filing. All other O&M labour expenses will be discussed in the sections below.

134 Exhibit 3577-X0064, AP-AUC-2015FEB03-081(c).
135 Exhibit 3577-X0161, AP-AUC-2015MAY21-004 Attachment 3.
136 Exhibit 3577-X0179, ATCO Pipelines update application.
137 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.1, pages 3-4 of 13.

6.2.1 Salary escalators

6.2.1.1 In-scope employees

292. ATCO Pipelines, and the Natural Gas Employee Association, who represent ATCO Pipelines' association members (in-scope employees), negotiated a two-year collective agreement for the period January 1, 2014 to December 31, 2015. The agreement provided for a wage increase of 3.5 per cent in both 2014 and 2015. ATCO Pipelines also submitted that the base increase for 2015 and the forecast for 2016 is consistent with other recent Alberta union wage settlements.[138]

293. Further, ATCO Pipelines stated that the Mercer (Canada) Limited (Mercer) 2016 forecast for out-of-scope labour for the pipeline sector represented another source of information that supported general labour inflation for ATCO Pipelines' forecast in-scope labour cost.[139]

294. The CCA submitted that the current Alberta labour market conditions do not support inflation increases for labour. As such, the CCA requested the Commission direct ATCO Pipelines to limit labour inflation rates to zero per cent for labour contracts which were not settled by the time of the hearing.[140]

295. CAPP noted that ATCO Pipelines' wage settlement for its in-scope employees for 2016 was incomplete. Lacking a settlement for 2016, CAPP recommended that ATCO Pipelines' in-scope wages for 2016 should be in a deferral account because the outcome of the negotiations and the inflation factor was uncertain at the time of the hearing.[141]

296. The UCA submitted that it did not contest ATCO Pipelines' in-scope labour projection of 3.5 per cent for 2015 on the basis that the 3.5 per cent was a function of the labour agreement that had already been negotiated and did not expire until the end of 2015.[142] The UCA took issue with the in-scope labour projection provided by ATCO Pipelines for 2016. The UCA submitted that the figures contained in ATCO Pipelines' application are based on data collected in an era of economic growth, rather than the current climate of lower growth. This data and the assumptions derived from it are stale and are no longer of assistance to the Commission in assessing ATCO Pipelines' application.[143]

297. The labour agreement by which ATCO Pipelines will determine its in-scope labour costs for 2016 has yet to be concluded. The UCA argued that ATCO Pipelines will be negotiating with its employee association, in the current economic climate, which can be fairly characterized as an employer's market. As detailed above, the Commission has heard evidence of mounting layoffs and declining or contracting economic growth. In this climate, the UCA asserted that ATCO Pipelines should be able to negotiate a much better labour agreement than it did under very different circumstances in 2013, when it was forced to pay a 3.5 per cent increase.[144]

298. The UCA submitted that ATCO Pipelines had testified that, due to "exceptional circumstances," it did not pay any of its employees any variable pay in 2014. ATCO Pipelines

138 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.4, page 1 of 4.
139 Exhibit 3577-X0328, ATCO Pipelines argument, paragraph 140.
140 Exhibit 3577-X0331, CCA argument, paragraph 92.
141 Exhibit 3577-X0326, CAPP argument, page 12.
142 Exhibit 3577-X0333, UCA argument, paragraph 31.
143 Exhibit 3577-X0333, UCA argument, paragraphs 32-33.
144 Exhibit 3577-X0333, UCA argument, paragraphs 34-35.

testified that it made the decision not to fund the variable pay program (VPP), in large part, because the marketplace did not require it to distribute VPP in order to retain and attract talent. This evidence is consistent with ATCO Pipelines' testimony that it had observed a material rise in the number of applicants for its job postings. This evidence of an employer's market and of rising demand for positions with ATCO Pipelines undermines its argument that its compensation lags behind its competitors and that it must increase its compensation to "catch up with the market."[145]

299. The UCA submitted that it is disingenuous for ATCO Pipelines to cut labour costs for the account of its shareholders, specifically VPP, by claiming there is no shortage of talent at ATCO Pipelines, while at the same asking the Commission to approve labour cost increases paid by ratepayers (in-scope labour) to retain and attract talent.[146] Further, publicly approving an application containing above-market labour assumptions is likely to undermine ATCO Pipelines' bargaining position with its employee association.[147]

300. Finally, the UCA submitted that ATCO Pipelines has provided evidence showing a significant reduction of its 2016 out-of-scope labour estimates, from 4.2 per cent to 3.0 per cent, without a similar, or any, reduction in its 2016 in-scope labour assumptions. The UCA submitted that both sets of assumptions are affected by the same market forces and that ATCO Pipelines cannot credibly say that one has decreased so significantly while denying any decrease in the other.[148]

301. Accordingly, the UCA stated that it would be inappropriate and imprudent for the Commission to approve an application assuming a forecast figure that is out of step with the current economic climate, particularly in the absence of persuasive or credible evidence as to why ATCO Pipelines' assumptions remain valid.[149]

302. The UCA recommended that, given ATCO Pipelines' admission that there is some cross-over between laid-off energy worker skills and those required by ATCO Pipelines, and its conduct in not paying VPP, a zero per cent increase for 2016 is a reasonable expectation of the labour negotiation outcome. In the alternative, the most recent average weekly earnings data on the record would also be a reasonable estimate of what can be expected from the negotiations, which would be more appropriate than other proxy metrics like Alberta CPI on the basis that it is a forecast informed by the employment market, rather than an inflation measure relating to a broad basket of consumer goods.[150]

303. ATCO Pipelines replied that CAPP's request for a deferral account for in-scope wages is not consistent with the traditional deferral account criteria for this category of costs. Additionally, these costs are not material and are within the ability of ATCO Pipelines to forecast at a reasonable level, for example, a one per cent change in the in-scope inflation rate amounts to only $92,000.[151]

[145] Exhibit 3577-X0333, UCA argument, paragraphs 36-37.
[146] Exhibit 3577-X0333, UCA argument, paragraph 38.
[147] Exhibit 3577-X0333, UCA argument, paragraph 39.
[148] Exhibit 3577-X0333, UCA argument, paragraph 40.
[149] Exhibit 3577-X0333, UCA argument, paragraph 41.
[150] Exhibit 3577-X0333, UCA argument, paragraph 42
[151] Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 36.

304. ATCO Pipelines submitted that the UCA's zero per cent increase for 2016 is contrary to the evidence, and the Mercer study shows an increase of three per cent for out-of-scope employees, which also has relevance to in-scope employees. Further, general inflation indicators are all generally positive for the test years, not flat.[152] ATCO Pipelines stated that interveners, in particular the UCA, had spent some time in cross-examination suggesting that the general economic downturn precipitated by the decline in oil prices over the last year must be directly relevant to ATCO Pipelines' forecast costs. ATCO Pipelines testified[153] that its costs are largely driven by sectors of the economy, in particular gas transmission construction and ILI work, that remain very busy notwithstanding the general economic climate.

305. ATCO Pipelines also submitted that the average weekly earnings data does not provide a reasonable estimate of its in-scope labour costs because average weekly earnings are not specific to ATCO Pipelines' industry sector, whereas the Mercer evidence is industry specific.[154]

306. Additionally, the UCA is completely off the mark with its allegations of "disingenuous" conduct on the part of ATCO Pipelines. Most significantly, any savings in labour costs resulting from lower VPP payouts are not for the account for ATCO Pipelines' shareholders, but for the account of ratepayers. In testimony, ATCO Pipelines confirmed it will refund the 2014 VPP non-payment to customers. ATCO Pipelines' decision not to make any 2014 VPP payments resulted in a direct savings for customers, with no benefit to its shareholders. Further, when ATCO Pipelines made the decision not to fund the VPP in 2014, it did so not because "… there was no shortage of talent at ATCO Pipelines …" but because extraordinary market conditions did not require VPP payouts in order to retain and attract personnel in 2014.[155]

Commission findings

307. The two-year collective agreement between ATCO Pipelines and the Natural Gas Employee Association for in-scope employees is effective between January 1, 2014 and December 31, 2015. The agreement provided for an increase of 3.5 per cent in 2015. No party opposed the 3.5 per cent increase for 2015. The Commission finds ATCO Pipelines' 2015 in-scope salary escalation rate of 3.5 per cent for 2015 to be reasonable and it is approved on a final basis.

308. With respect to the 2016 in-scope escalation factor, the Commission does not find that a deferral account is necessary. The Commission agrees with ATCO Pipelines that this cost does not currently meet the criteria for deferral account treatment and the Commission acknowledges that the salary escalator for 2016 to be negotiated between ATCO Pipelines and the Natural Gas Employee Association may be higher or lower than the forecast to be approved in this decision.

309. The Commission has approved a salary escalation rate of 3.0 per cent for out-of-scope employees for 2016 in Section 6.2.1.2 below, and the Commission similarly approves 3.0 per cent for in-scope salary escalation for 2016, on a final basis. The 3.0 per cent approved is consistent with the salary escalator approved for out-of-scope employees and aligns with the October 1, 2015, Mercer forecast provided on the record of this proceeding. The Commission considers that the 3.0 per cent for in-scope employees reflects the current labour market conditions and will, therefore, reflect any escalation in ATCO Pipelines labour costs.

[152] Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 165.
[153] Transcript, Volume 2, page 347, line 18 to page 348, line 23.
[154] Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 109.
[155] Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 168.

6.2.1.2 Out-of-scope employees

310. ATCO Pipelines retained Mercer to provide advice with respect to the level of salary escalation applicable to non-union (out-of-scope) employees for 2015 and 2016. For 2015 and 2016, Mercer recommended a range of escalation for out-of-scope employees of 4.1 per cent to 4.3 per cent, and this range included the salary increase budget data and promotional increases. ATCO Pipelines used a 4.2 per cent labour cost increase for its out-of-scope employees for 2015 and 2016.[156]

311. ATCO Pipelines submitted that it targets the 50th percentile of the market for its base employee compensation as well as its total employee compensation. ATCO Pipelines submitted that the target is reasonable as it allows ATCO Pipelines to manage its costs while also positioning it to provide competitive compensation and compete effectively with other companies for talent.[157]

312. During the oral hearing, an update from Mercer was filed dated October 1, 2015 showing new survey data for 2015 and 2016. In the update from Mercer, the median salary increase budget reported for 2015 actual was 3.0 per cent and for 2016 projected was 3.0 per cent.[158]

313. During the oral hearing, Mr. Shkrobot, witness for ATCO Pipelines, discussed that although the updated Mercer survey data reflected that the market had decreased to 3.0 per cent, ATCO Pipelines' requested 4.2 per cent increase remains reasonable because it is attempting to close the gap between its overall out-of-scope compensation levels and market levels:

> Q. MR. STAINER: And I understand that one of the explanations that's been put forward for this is that AP is taking the opportunity to catch up with the market as far as its compensation?
>
> A. MR. SHKROBOT: So, yes, we recognize that overall the survey data may suggest that 3 percent -- 3 percent is the new forecast for out-of-scope inflation for our pipeline mid sector. But we also recognize that we significantly lag the market, and that's why we remain committed that 4.2 percent reflects [the best] forecast at the time, given that we need to catch up in the marketplace.
>
> Q. MR. STAINER: So you've just said that 3 percent is the new forecast for the market for people who don't need to catch up?
>
> A. MR. SHKROBOT: So 3 percent would be the average increase in the market. And in the Mercer's compensation review, we show that we lag 15 percent in total compensation.
>
> Q. MR STAINER: And you're lagging compensation, and you're attempting to make up for that; correct?
>
> A. MR. SHKROBOT: Yes. So we are endeavouring to, again, target the 50 percentile, which would be the mean. And, yes. So our target and our goal is to on a -- I guess, on a practical basis, gain ground back to the median.[159]

[156] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.4, page 2 of 4 and Attachment 1.4.
[157] Exhibit 3577-X0060, AP-AUC-2015FEB03-013(c)-(d).
[158] Exhibit 3577-X0304, undertaking, Mercer October 1, 2015 memo.
[159] Transcript, Volume 2, page 446, line 2 to page 447, line 7.

314. CAPP disagreed with ATCO Pipelines' requested wage increases for out-of-scope employees and submitted that the increase was not justified and should be reduced. CAPP submitted that the Mercer report confirmed that compensation differs geographically between Edmonton and Calgary and that ATCO Pipelines' witness, Mr. Yung of Mercer, had stated that compensation for Edmonton employees was competitive.[160]

315. CAPP submitted that with respect to ATCO Pipelines' total compensation, ATCO Pipelines made the decision not to award variable pay for 2014 in May of 2015. CAPP stated that ATCO Pipelines' management has the ability to award variable pay if it is needed to bridge any compensation shortfall, and they felt that they did not need to in 2015. CAPP recommended that the Commission should not approve ATCO Pipelines' out-of-scope inflation factors, which are based on unrepresentative averages and are above the levels needed to compensate employees at a competitive level.[161]

316. The UCA submitted that the most current information on the record of the proceeding should be used with respect to key economic assumptions. The UCA recommended a 2015 and 2016 out-of-scope labour assumption of 3.0 per cent for each year as found in the updated memo received from Mercer on October 1, 2015.[162]

317. ATCO Pipelines submitted that CAPP had been mistaken about what Mr. Yung said and he was very clear that the statement about Edmonton compensation levels was a reference to generic Edmonton market compensation levels and not ATCO Pipelines' compensation levels.[163] CAPP's suggestion that its approach not to award variable pay to select employees in 2014 because of extraordinary market conditions as a reason to deny an increase in out-of-scope compensation generally, ignored the evidence that ATCO Pipelines' out-of-scope total remuneration levels continue to lag the market by 15 per cent.[164]

318. ATCO Pipelines also submitted that the UCA's recommendation of 3.0 per cent for out-of-scope labour ignored the Mercer evidence that ATCO Pipelines lags the market in total compensation by 15 per cent. ATCO Pipelines submitted that this is an important part of its request for an increase of 4.2 per cent.[165]

Commission findings

319. ATCO Pipelines submitted that its original forecast of 4.2 per cent for 2015 and 2016 for out-of-scope employees remains reasonable because its total compensation lags the market by 15 per cent. The Commission has compiled the following table that includes the estimates of out-of-scope escalation provided in Mercer's evidence and updates:

[160] Exhibit 3577-X0326, CAPP argument, page 12.
[161] Exhibit 3577-X0326, CAPP argument, page 13.
[162] Exhibit 3577-X0333, UCA argument, paragraphs 43-44.
[163] Transcript, Volume 3, page 506, lines 4-19.
[164] Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 39.
[165] Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 170.

Table 17. Mercer salary increase projections

	Percentage	Source
Initial recommendation	4.1% to 4.3%	Exhibit 0007.00.ATCOPIPE-3577, Section 1.4, Attachment 1.4
January 2015 update – informal poll	3.8% for 2015	Exhibit 3577-X0060, AP-AUC-2015FEB03-009(d)
March/April 2015 update – informal poll	3.0% for 2015	Exhibit 3577-X0173, AP-UCA-2015MAY21-095(a).
October 1, 2015 – memo	3.0% actual for 2015, 3.0% projected for 2016	Exhibit 3577-X0304, Undertaking, Mercer October 1, 2015 memo

320. Mercer's evidence shows that salary escalators are on a downward trend.

321. The evidence before the Commission does not support that the salary escalators for out-of-scope employees applied-for should be 4.2 per cent for 2015 and 2016 because salary escalation rates are on a downward trend, which could be partially due to changes in the Alberta economy. The Commission agrees with the UCA, that three per cent for out-of-scope labour escalation is more reflective of the current market, and the Commission finds that three per cent is based on the best available information on the record.

322. The Commission does not accept ATCO Pipelines argument that 4.2 per cent is reasonable because it lags the market in total compensation by 15 per cent. The Commission finds that when looking at base salary, ATCO Pipelines is, on average, two per cent above the 50th percentile. The Commission finds that there is no need for an increased salary escalator to compensate for the any lag with respect to ATCO Pipelines' base salary target of the 50th percentile.[166] The Commission does not find that it is reasonable to escalate base salaries due to ATCO Pipelines' assertion that this will balance out its total compensation that is below the market. The Commission considers that ATCO Pipelines has other means to manage its total compensation.

323. When looking at target total cash, which includes base salary and short-term incentives, ATCO Pipelines is, on average, seven per cent below the 50th percentile.[167] The Commission finds that it is the incentive portion of target total cash that has brought ATCO Pipelines' average down, from the above two per cent, to below seven per cent of the 50th percentile. ATCO Pipelines stated at the oral hearing that:

> Q. MR. SCHULTZ: But Mercer seems to indicate that the eligibility that you have is significantly lower than your peer group. Do you understand that to be the case?
>
> A. MR. SHKROBOT: I would say the funding level for short-term incentive programs is well below market, is what the Mercer's report indicates.
>
> Q. MR. SCHULTZ: I see. So I guess two questions come out of that:
>
> Will you be moving to extend variable -- the variable pay program eligibility beyond the 70 employees you forecast in light of the Mercer study? That's the first question.

[166] Exhibit 3577-X0308, undertaking, updated Mercer report, page 4 of 30.
[167] Exhibit 3577-X0308, undertaking, updated Mercer report, page 4 of 30.

> A. MR. SHKROBOT: So as we said in our application, we will continue to evaluate the market. The whole purpose of the VPP and overall compensations ensure that we continue to be able to [attract] and retain our employees.
>
> And although we have not extended it beyond the 70 positions, included in our application, what we said we needed to do is be flexible, and to the extent that we are having difficulty attracting or [retaining] employees, we will -- may be required to extend that beyond the 70 positions identified.
>
> Q. MR. SCHULTZ: I see. And you had met -- you had also responded to me in terms of the amount of variable pay that you actually pay, which I took went to the actual percentages of entitlement to variable pay.
>
> Is there, then, also the potential for your looking at increasing the amount that you are prepared -- that people could be eligible for?
>
> A. MR. SHKROBOT: That's correct. To the extent that market dictates and we find in our position that we -- the only way to continue to retain and [attract[we have to go increase that percentage.[168]

324. The Commission finds that target total compensation includes items such as variable pay, perquisites, long-term incentive pay, pension and savings and health and group benefits.[169] Although some of these items are not included for recovery in ATCO Pipelines' revenue requirement, the Commission considers that it is within the discretion of ATCO Pipelines' management to review if these tools are required to retain and attract employees, and therefore, ATCO Pipelines has the ability to vary any of these items to meet its objectives with respect to total compensation.

325. Accordingly, the Commission approves a 3.0 per cent out-of-scope salary escalation factor for both 2015 and 2016. The Commission considers that the 3.0 per cent should be inclusive of all salary increases and promotional increases. The Commission directs ATCO Pipelines to reflect the 3.0 per cent out-of-scope escalation factor in its compliance filing to this decision.

6.2.2 Variable pay program

326. In 2013, ATCO Pipelines implemented a new VPP, which was approved by the Commission in Decision 2013-430. The VPP was introduced as a means to attract and retain employees within the organization. ATCO Pipelines submitted that it had rolled out its VPP targeted at leadership positions and positions that are critical to operating and building the business. The VPP is based on individual employee performance as well as the performance of the employee's department and the company. Although ATCO Pipelines has not forecast an extension of the VPP in 2015-2016 to other levels of the organization, it will continue to monitor and evaluate the need to adjust the VPP as the market dictates.[170]

327. The CCA noted that there was no variable pay paid out in 2014. The CCA requested that the Commission deny ATCO Pipelines' forecast for variable pay for 2015 and 2016. The CCA

168 Transcript, Volume 1, page 61, line 18 to page 63, line 1.
169 For example see Exhibit 3577-X0308, undertaking, updated Mercer report, page 4 of 30.
170 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.8, page 1 of 2.

further requested that the Commission direct ATCO Pipelines to credit back previous years' unpaid variable pay, as part of the compliance filing for this decision.[171]

328. ATCO Pipelines submitted that the non-payment of the VPP in 2014 was due to extraordinary circumstances and the fact that it had acted prudently and did not authorize VPP payouts in 2014 due to extraordinary market conditions should not now be held against it. ATCO Pipelines testified that:

> Q. MR. WACHOWICH: …Why was VPP not funded in 2014?
>
> A. MR. SHKROBOT: The payment or non-payment of VPP in 2014 reflected the -- I guess what we would call exceptional circumstances in the marketplace…in terms of the economy and compensation from other employers.
>
> Q. MR. WACHOWICH: And what were those exceptional circumstances? I'm trying to –
>
> A. MR. SHKROBOT: So exceptional circumstances where there had been some layoffs and companies were not funding their bonus programs. So when we looked at -- as management we looked at the overall marketplace, again, the VPP as a tool -- one of the tools to attract and maintain employees. A decision was made to not fund and not pay out the VPP based on these -- what we consider extreme circumstances, and it put that amount to be refunded back to customers…[172]

329. ATCO Pipelines submitted that it must retain the ability to react to the marketplace, as required, to attract and retain employees. A further consideration is that ATCO Pipelines' out-of-scope employees lagged in the marketplace in overall compensation by some 15 per cent.[173] Additionally, ATCO Pipelines confirmed that the unpaid 2013 and 2014 VPP amounts would be refunded back to customers through its variable pay deferral account.[174]

Commission findings

330. ATCO Pipelines forecast $2.628 million in 2015 and $2.766 million for its variable pay program in the test years.[175] The Commission notes that, as ATCO Pipelines has acknowledged, it has a variable pay deferral account and any VPP amounts not paid out during the test period will be refunded to customers. ATCO Pipelines confirmed at the hearing that unpaid amounts from 2013 and 2014 have been refunded back to customers:

> A. MR. SCHKROBOT: …A decision was made to not fund and not pay out the VPP based on these -- what we consider extreme circumstances, and it put that amount to be refunded back to customers –
>
> Q. MR. WACHOWICH: Okay. When you say "refunded back to customers," it goes back into the -- I'm going to call it general revenue of the company and since it's –

171 Exhibit 3577-X0331, CCA argument, paragraphs 86-88.
172 Transcript, Volume 1, page 74, line 23 to page 75, line 15.
173 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 103.
174 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 104.
175 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines, application, Section 4.2.8, Table 4.2.8-1.

> A. MR. SHKROBOT: No. It's subject to deferrals. So we actually refund that, as included in Section 5 of our application. So we refund that back to customers.[176]

331. In Decision 2013-430, the Commission directed ATCO Pipelines to establish a variable pay deferral account to protect customers from amounts of the VPP costs that were not paid out during the test period. ATCO Pipelines has confirmed in testimony that amounts unpaid from 2013 and 2014 were refunded back to customers.

332. Upon review of the record, the Commission considers that the forecast VPP amounts are reasonable and gives ATCO Pipelines the ability to react to the marketplace and manage its employee retention. The Commission denies the CCA's request and approves ATCO Pipelines' forecast variable pay for 2015 and 2016, as filed.

6.2.3 Variable pay deferral account

333. ATCO Pipelines was directed to establish a variable pay deferral account to capture the differences between the actual and approved VPP payouts in the 2013 and 2014 test years. ATCO Pipelines submitted that it had now designed and formalized its VPP, and therefore requested that the Commission amend the deferral account definition to capture all variances where actual VPP costs are higher or lower than approved by the Commission, in order to provide balance to ATCO Pipelines and its customers.[177]

334. ATCO Pipelines also submitted that the company needed to respond to market conditions for employee compensation that are outside its control. To the extent that market conditions dictate, ATCO Pipelines submitted that it needed to maintain a flexible approach to the VPP.[178]

335. The CCA disagreed with ATCO Pipelines' request that the variable pay deferral account be symmetrical and stated that ATCO Pipelines statement that its proposal is "providing equal protection to AP and its customers" is incorrect. The CCA submitted that ATCO Pipelines controls all the information and the evaluation upon which the variable pay is paid out and therefore the risk is asymmetrical. Customers have no say in what amounts are paid out. The CCA submitted that ATCO Pipelines was proposing to transfer increased risk to customers without an assessment of that risk.[179]

336. The CCA submitted that the party who is most able to manage the risk should bear the risk and that deferral accounts do not have to be symmetrical. The CCA also submitted that given the current market conditions and likely conditions for at least the early part of 2016, the market conditions do not necessitate the use of variable pay. The CCA recommended that the request to have customers bear the risk of higher than forecast VVP costs should be denied.

337. CAPP submitted that ATCO Pipelines' request to capture variances where actual VPP costs are higher or lower than forecast is unreasonable and contrary to previous Commission rulings. CAPP disagreed that a deferral account needed to be symmetrical and submitted that ATCO Pipelines request to adjust its deferral account upwards removes its accountability to its

176 Transcript, Volume 1, page 75, lines 12-21.
177 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.8, page 1 of 2.
178 Exhibit 3577-X0033, AP-CCA-2015FEB03-033.
179 Exhibit 3577-X0331, CCA argument, paragraphs 81-82.

forecast.[180] CAPP identified three components within ATCO Pipelines' management control that expose customers to increased risk:

- The number of ATCO Pipelines employees eligible for the VPP.
- General criteria on which ATCO Pipelines bases its VPP payments.
- The VPP amount can range from one to 1.5 times the target award.[181]

338. ATCO Pipelines submitted that its request for symmetrical treatment of the VPP deferral account is fair and warranted. ATCO Pipelines stated that it had not extended the VPP program and it still remains well below the mark on short-term incentive compensation. The proposal is a compensation plan that is below market, while at the same time, flexible to respond to changing market conditions.[182]

339. ATCO Pipelines argued that while it may administer the VPP, it had no control over the marketplace, which is the driver for the VPP payouts.[183] ATCO Pipelines submitted that symmetrical treatment of the VPP deferral account is fair and that it had demonstrated that it is a good steward of customers' money when it comes to the VPP, given the non-expansion to all employees in 2013 and 2014, despite the expansion being approved and included in rates.[184]

Commission findings

340. In Decision 2013-430, the Commission directed ATCO Pipelines to establish a variable pay deferral account and stated, as follows:

> 321. The VPP is controlled by the utility and employee eligibility and any payments made on VPP objectives are solely at the discretion of ATCO Pipelines. If the utility has the discretion to increase the VPP costs and participants, customers would be exposed to a significant risk of additional costs. The Commission considers that an asymmetrical deferral account protects customers from variances between forecast and actual costs of the VPP which is solely under management control….[185]

341. The Commission reaffirms its finding from Decision 2013-430 and finds that there has been no material change to ATCO Pipelines' VPP since it last made its decision on this issue. The Commission continues to find that there is not enough historical data with respect to variable pay to ensure that the VPP will be at levels that are consistent with forecast VPP costs. The VPP is controlled by the utility, and is managed by ATCO Pipelines, and any payments made are at the sole discretion of ATCO Pipelines, such as the zero amount "paid out" in 2014.

342. Therefore, the Commission finds that there is insufficient information to allow for the symmetrical treatment of the VPP deferral account and that the asymmetrical variable pay deferral account continues to be reasonable for ATCO Pipelines' VPP costs. Accordingly, no change to the VPP deferral account is required.

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180 Exhibit 3577-X0326, CAPP argument, pages 14-15.
181 Exhibit 3577-X0326, CAPP argument, pages 15-16.
182 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 48.
183 Exhibit 3577-X0033, AP-CCA-2015FEB03-033.
184 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 49.
185 Decision 2013-430, paragraph 321.

6.2.4 Pension costs

343. The oral hearing for ATCO Utilities' 2013 Pension application[186] was conducted in September 2014. The outcome of that proceeding will establish the approved defined benefit pension costs to be used in the determination of ATCO Pipelines' final deferral account balance for 2013.

344. The differences between the actual defined benefit pension costs incurred and the placeholder values included in ATCO Pipelines' approved 2013-2014 revenue requirement have been included in its defined benefit deferral account which will be settled upon the completion of the 2013 and 2014 pension applications.[187] The Commission's findings on the defined benefit deferral account are discussed in Section 8 below.

345. On December 6, 2013, ATCO Electric Ltd., ATCO Gas, and ATCO Pipelines (the ATCO Utilities) filed an application requesting approval of its the 2013 pension application. In that application, the ATCO Utilities filed an updated Mercer actuarial valuation for pension funding as of December 31, 2012 (2012 valuation report). According to the 2012 valuation report, the pension plan had a deficiency funding requirement. The ATCO Utilities requested a cost recovery using a COLA based on 100 per cent of the CPI to a cap of three per cent as calculated in the 2012 valuation report, to be effective January 1, 2013. The ATCO Utilities requested that the 2013 pension costs of $7.1 million for ATCO Electric – Transmission and $5.4 million for ATCO Pipelines be approved, as established by the 2012 valuation report. Based on the Commission's direction in Decision 2011-391,[188] which limited the COLA adjustment to 50 per cent of the consumer price index (CPI) to a cap of three per cent (50 per cent COLA) for ATCO Electric – Transmission and ATCO Pipelines, a total revenue requirement reduction of $4.9 million was necessary.

346. In Decision 2954-D01-2015,[189] regarding the 2013 pension application, the Commission found that there had not been a material change in circumstances or changes to the provisions of the pension plan that persuaded the Commission to find that an increase in the COLA to 100 per cent of CPI to a cap of three per cent was reasonable. Decision 2954-D01-2015 reaffirmed that a COLA at 50 per cent of CPI up to three per cent was reasonable in setting just and reasonable rates, considering both the interests of the ATCO Utilities and of customers.

347. The current 2014 Pension application[190] includes the most recent actuarial evaluation of the ATCO Utilities defined benefit pension plan, as at December 31, 2013, which addresses the funding requirements for the defined benefit plan for 2014 through 2016. The application includes forecast defined benefit plan costs as recommended by this evaluation.[191] ATCO Pipelines applied for defined benefit pension costs of $2.559 million for 2015 and $2.559 million

186 Proceeding 2954, Application 1610148-1.
187 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 1.3, page 5 of 7.
188 Decision 2011-391: ATCO Utilities (ATCO Gas, ATCO Pipelines, and ATCO Electric Ltd.), 2011 Pension Common Matters, Proceeding 999, Application 1606850-1, September 27, 2011.
189 Decision 2954-D01-2015: ATCO Utilities (ATCO Gas, ATCO Pipelines, and ATCO Electric Ltd.), 2013 Pension Application, Proceeding 2954, January 15, 2015. Decision 2954-D01-2015 (Errata) issued May 28, 2015.
190 Proceeding 3405, Application 1610833-1, filed September 10, 2014.
191 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 1.3, pages 4-5 of 7.

for 2016 as placeholders,[192] and each year included a reduction of $0.818 million to reflect the 50 per cent COLA reduction, as reaffirmed in 2954-D01-2015.[193]

348. In argument, the CCA and CAPP submitted that given that the Supreme Court of Canada had ruled on the issue of the ATCO Utilities appeal, ATCO Pipelines' request for a placeholder for these costs should be denied.[194]

349. ATCO Pipelines explained in testimony that a placeholder is still required pending the outcome of the current 2014 pension application that addresses pension funding between the 2014 to 2016 years.[195]

Commission findings

350. The Commission notes that the 2014 pension application is still ongoing and will impact ATCO Pipelines' 2015 and 2016 revenue requirement because the 2014 pension application addresses the funding requirements for the defined benefit plan for 2014 through 2016. Therefore, the Commission approves ATCO Pipelines' request for its defined benefit pension costs to be treated as placeholder amounts for costs related to the 2014 pension application.

6.2.5 FTE forecasts

351. ATCO Pipelines defines a FTE as:

- One employee working full-time for the entire year.
- Two people working half-time for the full year.
- Two people working full-time for half a year.
- Various other combinations of part-time or partial year employment.[196]

352. On an overall basis, ATCO Pipelines has forecast 36 additional FTEs in 2015 and 10 in 2016. This results in total forecast FTEs of 470 at year-end of 2015 and 480 at year-end of 2016. ATCO Pipelines confirmed that the new positions will be full-time permanent positions.[197]

[192] Exhibit 3577-X0179, ATCO Pipelines updated application, Section 1.3, Table 1.3-1.
[193] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.9 and Table 4.2.9-1.
[194] Exhibit 3577-X0331, CCA argument, paragraph 89 and Exhibit 3577-X0326, CAPP argument, page 17.
[195] Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 105.
[196] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.4, page 1 of 10.
[197] Transcript, Volume 3, page 540.

353. The additional positions proposed in the test period are discussed individually in the table below by labour activity category.[198]

Table 18. Forecast additional labour positions, by labour activity category

Labour activity category	Proposed additional position	Additional non-capital FTEs	Proposed hire date	Reason for additional position
Gas control	Control centre operator	2 positions at 0.7 FTEs each	January 2015 June 2015	ATCO Pipelines stated that more resources are required to monitor and control the pipeline network as the system grows and becomes more complex. To illustrate the increasing complexity of the system, ATCO Pipelines provided the number of points monitored by the Control Centre.[199] The number of points has increased by 21 per cent from 2013 to 2016. According to ATCO Pipelines, it takes three years to develop fully qualified Control Centre operators and ATCO Pipelines faces turnover in the Control Centre due to retirements and competition for skilled resources in Alberta.
	Team leader – gas control operator training	1.0	June 2015	
	SCADA engineer	1.0	May 2015	To provide increase support on cyber security, alarm management and control room management initiatives.
Engineering and planning	Group leader - planning	0.3	January 2015	To mentor staff, collaborate with NGTL on Alberta system planning and provide support for project teams executing capital programs.
	Planning engineer/system optimization engineer	1.0	May 2015	To support analysis required to address increasing system hydraulic complexities resulting from changes in supply and demand or from ILI projects and to collaborate with NGTL on Alberta system planning.
	Team leader – land administration	1.0	May 2015	To address increased volumes of developer proposals, issues and questions.
	Senior administration coordinator	0.5	2016	To address additional landowner payments resulting from the change in asset base.
Pipeline operations	Transmission operator	2 positions at 1.0 FTE each	2016	To accommodate the increased operation and maintenance workload associated with facilities being added.
	Damage prevention coordinator	0.5	January 2015	To deal with increasing third party activity around ATCO Pipelines' pipelines. To illustrate the increased activity, ATCO Pipelines provided the number of third party locate requests from 2011 and forecast to 2016. These are forecast to increase 14 per cent in the test period.**
	Emergency response manager	0.5	January 2015	To coordinate the Incident Command System implementation in 2015 and to actively engage emergency response service in the ATCO Pipelines service territory to educate them on ATCO Pipelines facilities in their areas.

[198] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.4, page 1 of 10.

[199] Per ATCO Pipelines' response to UCA IR (Exhibit 3577-X0280, AP-UCA-2015FEB03-052), the number of points is a direct reflection of the number of facilities and/or automated equipment that ATCO Pipelines monitors and controls. Increased costs associated with additional points are due to increased resources to manage, monitor, validate and secure the data. Labour costs may be reduced when using SCADA for monitoring and automation due to a reduction in the frequency of physical contract with a facility required, dispatching of resources, addressing situations remotely and optimizing pipeline operation.

Labour activity category	Proposed additional position	Additional non-capital FTEs	Proposed hire date	Reason for additional position
	Operations engineer	2 positions at 0.5 FTEs each	2015	To address increased compliance and reporting requirements related to pipeline safety initiatives and continued activity around ATCO Pipelines facilities. To illustrate the increased inspection and surveillance by regulators, ATCO Pipelines noted that the Alberta Energy Regulator conducted 58 site inspections in 2013 compared to 27 in 2011. ATCO Pipelines also provided the number of third party crossings from 2011 and forecast to 2016 to illustrate increased activity around ATCO Pipelines facilities. The number of third party crossings is forecast to increase 21 per cent in the test period.**
	Gas quality coordinator	0.7	2015	To address increasing system complexity and growth and the increasing number of inspection locations that must be monitored and reported on.
	Electrician	0.5	Not provided	Driven by system growth and development, increased capital project activity and incremental facilities and systems.
	Standards engineer	0.5	2015	To coordinate the development of ATCO Pipelines' asset management system (discussed further in Section 6.3.1).
	Engineer – asset management	1.0	2015	
Compressor operations	District compressor mechanic	0.8	2016	To address the net addition of 85 measurement and regulating stations (from the NGTL asset swap) which adds compression maintenance work requirements.
Measurement and regulating operations	Process control technologists	2 positions at 0.7 FTEs each	2016	Driven by the 85 additional facilities being acquired in the NGTL asset swap.
Other (Professional/ Management)	HR coordinators	2 positions at 1.0 FTE each	Not provided	To address changing employee demographics which has impacted the need for additional resource planning, recruiting and training. Additionally, these positions will support the recruitment of the additional 46 FTEs and replacements of retirements over the test period.
	Senior communications advisor Calgary	1.0	Not provided	To address incremental public communications and community involvement required to comply with regulator and public expectations.
Accountants	Financial planning accountant	1.0	Not provided	To address the increasing need for planning and reporting to comply with regulatory requirements and internal/external reporting.
	Fixed asset accountant	0.5	Not provided	To support ATCO Pipelines' increased level of capital and the changing pipeline system, to support scoping, design and implementation of a budgeting and planning system and to ensure ATCO Pipelines' financial system are integrated with asset management initiatives.
	Operational planning accountant	1.0	Not provided	To address increased workload as a result of growth and changes in ATCO Pipelines' operations, including requirements under ATCO Pipelines' asset management initiatives.

Labour activity category	Proposed additional position	Additional non-capital FTEs	Proposed hire date	Reason for additional position
Clerical	Accounts payable clerk	1.0	Not provided	To address the increased volume of supplier payments related to ATCO Pipelines' capital program. ATCO Pipelines provided the number of supplier payments to illustrate the increased volume. Supplier payments increased from 25,777 to 32,921 in the last five years.[200]
	Purchasing clerk	1.0	Not provided	To support to ATCO Pipelines' purchasing department due to increased competitive procurement bids, formal quotations, the requirement for greater internal documentation and high project management needs.
TOTAL O&M FTEs		**22.6**		
Capital programs FTEs*		23		

Sources: Exhibit 0007.00.ATCOPIPE-3577, Section 4.2.1, pages 4-9 of 13 and Section 4.2.4, pages 2-10 of 10 and Exhibit 3577-X0280, AP-UCA-2015FEB03-0043(b).
*Capital FTE labour costs are not included in O&M costs. A list of capital FTEs was provided in AP-UCA-2015FEB03-043(c) in Exhibit 3577-X0280 at PDF pages 207-208.
**Per AP-AUC-2015FEB03-082(b) in Exhibit 3577-X0064, ATCO Pipelines has not forecast the level of activity for the assets being acquired from NGTL compared to the level of activity for the assets being transferred to NGTL.

354. ATCO Pipelines provided the proposed hire date for most positions and indicated that the hire dates of personnel is not spread evenly over the two test years but rather, hire dates are forecast using the optimal date relative to the work forecast to be completed by the employees.[201]

355. ATCO Pipelines' increase in FTEs is due to increased activity levels associated with increased capital spending, pipeline integrity work, regulatory compliance obligations and responding to increased public expectations, due to an increased number of retirements during the test period and subsequent years and due to challenges in attraction and retention of resources necessary to ensure execution of all its programs.[202]

356. ATCO Pipelines indicated that the two operations engineering positions were filled prior to January 2015.[203]

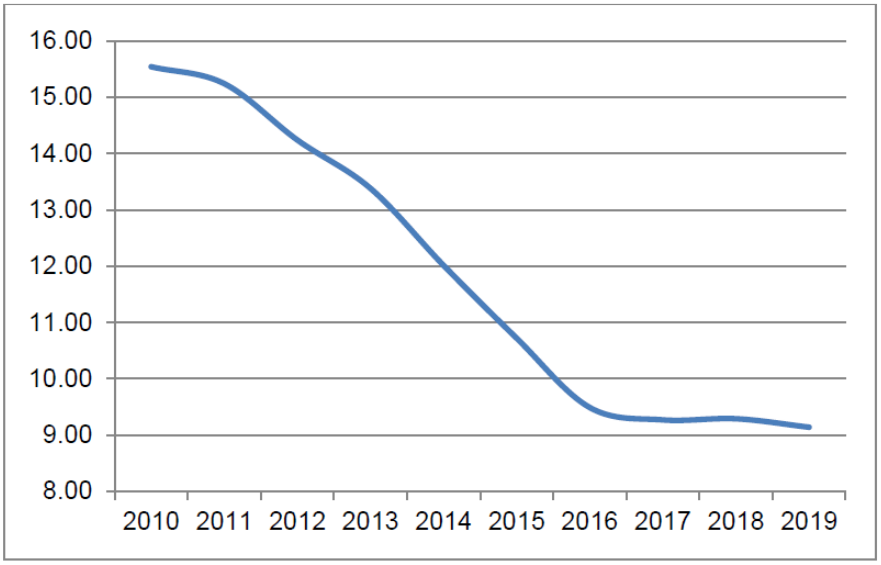
357. ATCO Pipelines anticipates increased turnover going forward and stated in the application that it is preparing for this through a combination of additional positions, increased levels of recruitment, retention and training activities and the proposed asset management program.[204]

358. ATCO Pipelines anticipates that approximately 20 per cent of ATCO Pipelines employees in leadership positions will retire during the test period and nearly all employees in the defined benefit pension plan will retire within the next 10 years. ATCO Pipelines indicated that 15 per cent of its workforce is eligible to retire in the next five years. ATCO Pipelines indicated that these retirements will result in a loss of knowledge and experience and will result in declining average years of service which will increase the need to train and develop successors

200 Exhibit 3577-X0293, AP-AUC-2015FEB03-092(a).
201 Exhibit 3577-X0280, AP-UCA-2015FEB03-047(b).
202 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.3, pages 1 and 5 of 5.
203 Exhibit 3577-X0064, AP-AUC-2015FEB03-079(a).
204 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.2, page 6 of 6.

to address the gap.[205] ATCO Pipelines provided the following chart to illustrate the forecast decline in average years of service:

Figure 1. Average years of service of ATCO Pipelines workforce



Source: Exhibit 0007.00.ATCOPIPE-3577, application, PDF page 123, Chart 4.2.3-2. The underlying information, headcounts, turnover and retirement projections and calculated total years of service, used in determining average years of service for the chart above, was provided in response to AP-UCA-2015MAY21-107(a)-(b).

359. ATCO Pipelines also provided a summary of employees eligible to retire and the actual retirements since 2010:

Table 19. Summary of employees eligible to retire and actual retirements from 2010-2016

	2010	2011	2012	2013	2014	2015	2016
Retirement eligibility	10	13	24	25	26	31	25
Actual retirements	3	6	11	13	12	19*	15*

Source: Exhibit 3577-X0284, AP-AUC-2015MAY21-087.
*Based on history and employee eligibility, ATCO Pipelines has forecast 19 retirements for 2015 and 15 for 2016.

360. ATCO Pipelines relies on a combination of external recruitment and internal succession to address employee change, such as retirements. When ATCO Pipelines hires externally for skill sets not currently available within ATCO Pipelines, external candidates are hired with a skill set and pay level consistent with that of the departing employee. Generally, ATCO Pipelines relies on internal succession planning to address expected retirements so internal candidates are at or just below the level of the departing employee. This results in a cascading impact of internal movements down to entry level positions.[206]

[205] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.3, page 2 of 5.
[206] Exhibit 3577-X0280, AP-UCA-2015FEB03-043(a).

361. In argument, CAPP requested that forecast positions that are currently unfilled be disallowed and any positions that have not been filled in a timely manner be removed from ATCO Pipelines' forecast FTEs in the test period.[207]

362. On November 26, 2015, the CCA submitted a request to suspend the process schedule for one week in order to assess the impact of the recent ATCO companies' announcement of restructuring and employee reductions on ATCO Pipelines' revenue requirement.[208] The Commission issued a ruling on November 27, 2015, denying the request. In that ruling, the Commission noted that the effect of employee reductions on ATCO Pipelines' revenue requirement and forecast FTEs for the test period is uncertain and therefore, a placeholder was established for FTEs and their related costs.[209]

363. In reply argument, the CCA took issue with the ATCO announcement of employee reductions which do not form part of the evidence on the record and argued that the layoffs should have been disclosed by ATCO Pipelines. The CCA provided a list of questions that it proposed should have been asked had ATCO Pipelines properly disclosed the upcoming layoffs and submitted that these should each be addressed by ATCO Pipelines in the compliance filing. The CCA submitted that the Commission's November 27, 2015 ruling does not fully address the impacts of the layoffs because, in the CCA's view, the impacts will go beyond FTEs, and submitted that the compliance filing should include information on all the effects of the restructuring of ATCO and particularly ATCO Pipelines. The CCA also submitted that ATCO Pipelines should be directed to disclose actual positions filled and any further expected layoffs in the test period.[210]

364. Subsequent to the Commission's ruling, the UCA submitted a motion on November 30, 2015, to expand placeholder treatment to include other cost items beyond FTEs. In the UCA's view, if employee reductions are due to a poor economy, then this would also impact the forecasts for supplies inflation and in-scope/out-of-scope labour for the 2016 test year, and the UCA accordingly requested these items also receive placeholder treatment. The UCA further requested placeholder treatment for forecast capital expenditures as, in its submission, employee reductions may affect ATCO Pipelines' ability to execute its capital project plan and ILI work.[211]

365. The Commission issued a ruling on December 10, 2015, following submissions from parties, denying the UCA's request. The Commission noted that it must balance the need for further placeholders with the applicant's right to a timely decision based on the prospective forecast and the information filed in the evidentiary portion of the proceeding. Due to the timing of the announced employee reductions, the Commission considered that ATCO Pipelines could not be reasonably expected to update the Commission in this proceeding. The Commission considered that the placeholder treatment afforded FTEs and their related costs allows for a balance between parties opportunity to assess the impact of employee reductions and ATCO Pipelines' right to a timely decision.[212]

207 Exhibit 3577-X0326, CAPP argument, page 8.
208 Exhibit 3577-X0339, CCA correspondence, November 26, 2015.
209 Exhibit 3577-X0340, AUC letter – CCA request to suspend the process schedule, November 27, 2015.
210 Exhibit 3577-X0342, CCA reply argument, pages 3-6 and 8.
211 Exhibit 3577-X0349, UCA motion re placeholder treatment.
212 Exhibit 3577-X0353, AUC letter – Ruling on the UCA motion, December 10, 2015.

Commission findings

366. Given the Commission's November 27, 2015 and December 10, 2015 rulings on the matter of placeholder treatment for FTEs and their related costs, the Commission continues to direct ATCO Pipelines to clearly identify the impact of announced employee reductions on forecast FTEs and revenue requirement for the test years. The FTE costs will continue to be treated as a placeholder until the impact of employee reductions is assessed in the compliance filing to this decision. The Commission considers that ATCO Pipelines can take into account the arguments and reply arguments of interveners in preparing its compliance filing to this decision with respect to FTEs.

367. Further, the Commission notes that adjustments have been directed in other sections of this decision based on the information provided on the record of this proceeding, related to matters such as escalation factors, VPP and vacancy rates, which could address some of the parties concerns that were raised. In light of the Commission's November 27, 2015 and December 10, 2015 rulings, parties may provide evidence and recommendations on further impacts to ATCO Pipelines' revenue requirements from the ATCO Group's announced restructuring on FTEs in the compliance filing to this decision.

6.2.6 Vacancy rates

368. The vacancy rate is determined based on an analysis of vacant O&M positions, using a five-year average, which gives effect to the time lag between a position becoming vacant and the filling of that position. ATCO Pipelines forecasts a vacancy rate of 4.2 per cent for both 2015 and 2016.[213]

369. ATCO Pipelines provided the following tables to show its calculation of the five-year average, using actual position vacancies from 2009 to 2013:

Table 20. Actual capital vacancy rates for five-year average calculation

Capital	2009	2010	2011	2012	2013	5-year average
Vacant weeks	325.5	426.2	564.1	544.9	569.6	
Position weeks	6,207.4	6,618.1	7,046.4	7,436.9	8,824.5	
Vacancy rate	**5.2%**	**6.4%**	**8.0%**	**7.3%**	**6.5%**	**6.7%**

Table 21. Actual O&M vacancy rates for five-year average calculation

Operating	2009	2010	2011	2012	2013	5-year average
Vacant weeks	300.5	709.5	597.7	321.8	501.0	
Position weeks	10,992.3	10,797.9	11,689.0	12,133.8	12,186.1	
Vacancy rate	**2.7%**	**6.6%**	**5.1%**	**2.7%**	**4.1%**	**4.2%**

Source for tables: Exhibit 3577-X0283, AP-UCA-2015FEB03-054(a)-(c).

[213] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.4, pages 2-3 of 4.

370. In the hearing, an ATCO Pipelines witness noted that the calculated vacancy rate reflects historic vacancies and it incorporates positions that are open for a period of time as well as positions that become open due to individuals moving into more senior roles.[214]

371. In response to an IR, ATCO Pipelines recognized that the slowdown in the economy could result in fewer jobs available in the marketplace and could result in a lower vacancy rate compared to the vacancy rate included in the application. For example, ATCO Pipelines has experienced an increase in the number of job applicants for advertised positions. ATCO Pipelines acknowledged that the current vacancy rate of 4.2 per cent is high,[215] but in the update to its application on June 22, 2015, there were no changes to proposed vacancy rates.[216]

372. In argument, CAPP provided an analysis of vacancy statistics and concluded that ATCO Pipelines' use of a five-year average, under-represents actual vacancies.[217] CAPP's analysis is reproduced in the following table:

Table 22. CAPP's analysis of ATCO Pipelines vacancies

	2010		2011		2012		2013		2014			
	# pos.	Avg. days vacant	# pos.	Avg. days vacant	# pos.	Avg. days vacant	# pos.	Avg. days vacant	# pos.	Avg. days vacant	Total	Weighted avg. days
Inter-company transfer	4	132.0	17	114.2	12	76.6	5	143.0	3	96.0	41	107.1
External	20	156.0	36	109.6	33	96.7	24	90.8	24	70.1	137	103.1
Internal	12	129.4	19	76.1	20	85.3	22	81.7	24	84.2	97	87.9
To be filled following year	0	0.0	0	0.0	1	61.0	19	150.4	34	157.7	54	153.4
Total	36		72		66		70		85		329	
Vacancies at year end					8	168.0	18	360.2	34			
Deleted	11	272.8	3	179.7	4	139.3	0	0.0	0	0.0	18	227.6
"Blank"	0	0.0	2	144.5	0	0.0	0	0.0	0	0.0	2	144.5

Note:
(1) Average days vacant only represent vacant days until the end of the respective calendar year. The 2012 vacancy was still vacant at the end of 2013.
(2) The actual days it took to either fill the vacancies at the end of 2012 in 2013-14 or the vacancies at the end of 2013 in 2014.
(3) The actual vacancy days for 2014 "To be filled in 2015" are not known as the vacancy fill dates in 2015 were not updated by ATCO Pipelines.

Source: Exhibit 3577-X0326, CAPP argument, page 9.

373. As a result of this analysis, CAPP concluded that:

- ATCO Pipelines' 5-year average time to replace staff internally is less than 90 days.
- ATCO Pipelines' 5-year average to replace staff externally or by an inter-company transfer is approximately 103-107 days.

214 Transcript, Volume 1, page 58.
215 Exhibit 3577-X0060, AP-AUC-2015FEB03-002(a)-(e).
216 Exhibit 3577-X0179, ATCO Pipelines updated application.
217 Exhibit 3577-X0326, CAPP argument, page 9.

- ATCO Pipelines took a significant amount of time to delete positions in 2010-2012.
- ATCO Pipelines takes longer to fill positions which are vacant at year-end than it takes to fill within the year.
- ATCO Pipelines has been able to fill vacancies internally and externally in a timely manner but has not demonstrated it has backfilled new openings.[218]

374. CAPP indicated that ATCO Pipelines continually justifies the need for new positions by stating that it is losing experience to retirements and employee turnover, which results in an increased number of positions to recruit, train and mentor for less experienced employees. In CAPP's view, this issue was brought forward by ATCO Pipelines in the 2013-2014 GRA and therefore ATCO Pipelines has had two years to address it. Further, CAPP noted that the average service years will naturally drop if a long-term employee is replaced with a new hire.[219]

375. CAPP also argued that ATCO Pipelines replaces senior employees with internal employees at or just below the level of the departing employee or with external candidates with consistent skill sets of the departing employee which results in little loss of experience. CAPP indicated that it would appear that ATCO Pipelines has planned for the retirements and has retained senior staff to facilitate training.

376. In reply argument, CAPP stated that actual vacancies or cumulative vacancy data are the sum of the vacant positions and vacancies from delays in hiring new positions, and ATCO Pipelines is not counting unfilled new positions as vacancies. Again, this results in ATCO Pipelines understating its vacancy forecast and seeking to recover wage costs for positions that are actually being deferred by delays in hiring.[220]

377. Based on the above, CAPP recommended that ATCO Pipelines be directed to use actual vacancies at the time of the application for 2015 and 2016 vacancy rates, based on the cumulative forecasts of vacancies for new as well as existing positions.[221]

378. In reply argument, ATCO Pipelines noted that it was directed by the Commission in the last GRA to use a five-year average for forecasting vacancies. Additionally, data for 2013 and 2014 vacancies that forecast FTEs, net of vacancies, were accurate. Furthermore, because 2010 to 2012 were settlement years, they did not have approved FTEs. ATCO Pipelines disagreed with CAPP's argument that departing employees are replaced with external employees of a consistent skill set, saying that at issue is ATCO Pipelines specific experience, not general industry experience.[222]

Commission findings

379. The Commission continues to be of the view that, in general, using a five-year average to calculate the forecast vacancy rate is generally acceptable for the purpose of reflecting the vacancy rate in revenue requirement. However, based on the evidence on the record and the views of the parties, the Commission finds that in certain cases, adjustments could be required to account for anomalies in the current environment. In this case, Alberta’s economy has experienced a slowdown which, in ATCO Pipelines’ experience, has led to increased

218 Exhibit 3577-X0326, CAPP argument, page 9.
219 Exhibit 3577-X0326, CAPP argument, page 10.
220 Exhibit 3577-X0341, CAPP reply argument, page 5.
221 Exhibit 3577-X0326, CAPP argument, page 11 and Exhibit 3577-X0341, CAPP reply argument, page 5.
222 Exhibit 3577-X0347, ATCO Pipelines reply argument, pages 10-12.

applications for positions. This experience would seem to suggest that there would be a corresponding decrease in vacant positions.

380. However, the Commission has also considered the analysis included in CAPP's argument, which reformulates information on the record, and suggests that ATCO Pipelines under-represented the number of vacancies by not including vacancies that are a result of new positions (positions forecasted to be created in the test period) in the forecast vacancy rate.

381. Given the difficulty in forecasting vacancies due to uncertainties in ATCO Pipelines' operating environment, the Commission continues to consider that using a five-year average of historical rates is a reasonable methodology to estimate vacancy rates. This methodology will be reflective of past experience and should account for variability in vacancy rates due to those fluctuations in ATCO Pipelines' operating environment. Accordingly, the Commission approves ATCO Pipelines' forecast vacancy rate of 4.2 per cent for each of the test years, as filed.

6.3 O&M supplies expenses

382. In the application, ATCO Pipelines provided the following table, which breaks out the components of O&M supplies and shows the actual costs for the previous test period and forecast costs for the current test period:

Table 23. Operations and maintenance supplies

		2013 actual	2014 actual	2015 forecast	2016 forecast
		($ million)			
1	Contract services	5.28	5.04	7.23	7.96
2	Utilities	1.41	1.45	2.00	2.21
3	Company vehicles	0.92	0.99	0.98	1.01
4	Fringe benefits	5.05	3.46	3.75	3.88
5	Travel, accommodations, and meals	0.47	0.38	0.50	0.52
6	NGTL asset swap	0.00	0.00	0.00	1.60
7	Materials, equipment, and tools	3.03	3.13	3.12	3.28
8	Year-end accrual adjustment	0.34	(0.34)	0.00	0.00
	Total	**16.46**	**14.11**	**17.58**	**20.45**

Sources: Exhibit 3577-X00161, AP-AUC-2015MAY21-003 Attachment 3, Schedule 4.2.1-4 and Exhibit 3577-X0064, AP-AUC-2015FEB03-084(a) Attachment.

383. Contract services (or labour) is equal to 41 per cent of O&M supplies in 2015 and 39 per cent in 2016.[223] Contract services listed in the table above includes costs that ATCO Pipelines incurs through contractors. Contract services are forecast to increase as ATCO Pipelines implements the ICS,[224] an enhanced landowner notification process, and costs associated with external training and communication resources. Additional contract services are also required in the test years due to implementation of the ISO 55001 asset management standard. External consultants will assist ATCO Pipelines with the completion of an asset management gap analysis in 2015 and then with implementation work in 2016 such as implementation of improvements identified through the gap analysis, gap closure plans, and audits required to assure conformance

223 Exhibit 3577-X0279, AP-UCA-2015FEB03-031(b).

224 The ICS is a model used by most major emergency response centres in Alberta. ATCO Pipelines' implementation of its ICS was recommended in the 2014 Certificate of Recognition audit undertaken by ATCO Pipelines and will allow ATCO Pipelines to more effectively interact with other emergency services.

with ISO 55001 and preparations for ISO 55001 certification.[225] ATCO Pipelines' implementation of the ISO 55001 Asset Management standard is discussed further in Section 6.3.1.

384. ATCO Pipelines indicated that utilities costs are forecast to increase due to changing operational needs, specifically increased frequency of injections, a new operations facility in Airdrie and a forecast increase in compressor run hours at ATCO Pipelines' salt caverns storage facility, which is associated with the supply/demand balancing of the Alberta system.[226] Utility costs are forecast based on historical costs, adjusted for any projections for changes in usage and estimated inflation. ATCO Pipelines monitors the pool price when injecting in real-time. However, ATCO Pipelines noted it does not always have the flexibility to alter usage to minimize fuel costs. As a result, ATCO Pipelines forecasts an additional 30 days of withdrawal from and 50 days of injection into its storage facility during the test years[227] ATCO Pipelines also included in its utility costs for the test period $40,000 in 2015 and $150,000 in 2016, which are additional costs for the Airdrie operations centre. These costs include utilities, and building maintenance, including snow removal, grounds keeping, waste disposal and cleaning services.[228]

385. In response to an IR, ATCO Pipelines provided a table of its fuel cost assumptions for gasoline and diesel. ATCO Pipelines indicated that it does not make a separate assumption for natural gas but rather uses historical averages plus inflation for estimating its building utility costs, which includes natural gas.[229] The table is reproduced below:

Table 24. Fuel cost assumptions

	2015 forecast costs ($000)				2016 forecast costs ($000)				Variance (%)
Fuel costs	Unit price (per litre)	O&M	Capital	Total	Unit price (per litre)	O&M	Capital	Total	Total from 2015 to 2016
Gasoline	1.09	382	429	811	1.12	393	442	835	2.96%
Diesel	1.37	107	121	228	1.41	111	124	235	3.07%

Source: Exhibit 3577-X0173, AP-UCA-2015MAY21-093(b).

386. The discussion of other major cost items shown in Table 23, which ATCO Pipelines provided variance explanations for, is continued below.

387. The forecast increase for materials, equipment and tools costs reflects inflation and current market pricing for items that are affected by commodities pricing such as nitrogen and compressor oil.[230] ATCO Pipelines does not use a historical average for these costs; prior year activity is reviewed and adjustments are made for one-time expenses and costs are added for system growth, code compliance changes and training requirements.[231]

225 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.1, pages 10-11 of 13.
226 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.1, page 11 of 13.
227 Exhibit 3577-X0283, AP-UCA-2015FEB03-055(a).
228 Exhibit 3577-X0283, AP-UCA-2015FEB03-055(b).
229 Exhibit 3577-X0249, AP-UCA-2015FEB03-028(c).
230 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.1, page 13 of 13.
231 Exhibit 3577-X0283, AP-UCA-2015FEB03-056(d).

388. Fringe benefit costs include costs such as employment insurance, Workers Compensation Board (WCB), Canada Pension Plan, company pension, employee health and dental plans, group life insurance and post-employment benefits.[232]

389. ATCO Pipelines assumed an inflation rate of 3.0 per cent for supplies. Generally, ATCO Pipelines explained that increases in supplies costs due to inflation were assumed to be 3.0 per cent where specific cost increases could not be estimated for the test years.[233] The inflation rate was based on Alberta economic assumptions.[234] The assumptions were updated in response to the first round of IRs. ATCO Pipelines explained that a significant component of the supplies costs are for contract services, which are labour based costs. ATCO Pipelines' labour costs are forecast to increase by 3.5 per cent for in-scope personnel, which is reflective of external wage settlements for 2015 and 2016. These factors were used to internally derive the 3.0 per cent escalation which represents ATCO Pipelines management's assessment of an appropriate escalation rate such that it reflects a blend of contract labour and other non–labour costs.[235] Furthermore, Alberta CPI, one of the economic indicators used, was forecast to be 2.0 per cent at the time of the application and more recent forecasts of CPI (at the time of responses to the first round of IRs), were at 1.8 per cent. ATCO Pipelines argued that this is consistent with the CPI per cent used in the application and therefore the assumptions for supplies inflation remains reasonable.[236] Moreover, along with a decline in the economic environment, there has been a significant decline in the value of the Canadian dollar since the application was prepared. ATCO Pipelines has not quantified this impact but stated that this will translate into higher costs to ATCO Pipelines for any services and supplies sourced from the United States.[237]

390. In argument, the UCA commented on the declining economic environment in Alberta and ATCO Pipelines' decision not to update its application: "In light of the extraordinary changes to the economic climate in Alberta since the time the data contained in the application was collected, ATCO Pipelines' use of pre-2015 data is of little use and risks misdirecting the Commission as to the true state of affairs faced in the province."[238] The UCA argued that, based on the Commission's previous findings about the need for the best available information, the current proceeding's findings should be based on the most current information available. The UCA argued that 0.9 per cent and 1.6 per cent[239] should be used for supplies escalators in 2015 and 2016 respectively, on the basis that ATCO Pipelines' forecast relies on stale data (from November 2014 and February 2015) and the methodology used to forecast the escalators is unsupported and not reproducible (calculations are not reproducible or testable year-to-year or following extraordinary events, forecasts are based on management's best estimate, and ATCO Pipelines has not adopted any standard measure of inflation).[240]

232 Exhibit 3577-X0039, AP-CAL-2015FEB03-052(c).
233 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.4, Table 1.4-1.
234 The economic assumptions include data from Alberta Finance's Fiscal Plan 2014-2017 Economic Outlook available at http://www.finance.alberta.ca/publications/budget/budget2014/fiscal-plan-economic-outlook.pdf. ATCO Pipelines included indicators such as nominal economic growth, real economic growth, employment, population, average weekly earnings and Alberta CPI which ATCO Pipelines stated are escalating annually at a rate of 3.5 per cent for 2015 and 2016.
235 Exhibit 3577-X0249, AP-UCA-2015FEB03-031(a).
236 Exhibit 3577-X0060, AP-AUC-2015FEB03-002.
237 Exhibit 3577-X0060, AP-AUC-2015FEB03-002 (a)-(e).
238 Exhibit 3577-X0333, UCA argument, page 7.
239 These percentages are from the Alberta Treasury Board and Finance Department's 2015-16 First Quarter Fiscal Update Economic Statement dated August 2015.
240 Exhibit 3577-X0333, UCA argument, pages 8-9.

391. In its reply argument, CAPP supported the UCA's argument that the best available information should be used and supported the UCA's recommendation of a supplies escalator of 0.9 per cent in 2015 and 1.6 per cent in 2016. CAPP noted that ATCO Pipelines made several adjustments to its revenue requirement during the proceeding based on updated information but noticeably absent were adjustments related to labour and supply escalators.[241]

392. The CCA argued that the forecast rate for supplies inflation is excessive given current Statistics Canada Economic Indicators.[242] The CCA recommended using the federal government CPI rate of 1.7 per cent for supplies in 2015 and 2016 and that ATCO Pipelines' revenue requirement be adjusted accordingly.[243]

393. In reply argument, ATCO Pipelines reiterated that average weekly earnings are not specific to ATCO Pipelines' industry sector while the Mercer evidence is. ATCO Pipelines also noted that its costs are driven by sectors that are still busy despite the general economic climate.[244]

Commission findings

394. The Commission finds that, in light of the current economic situation in Alberta and given the evidence on the record from independent reports which show decreased forecasts for CPI compared to that submitted by ATCO Pipelines, the proposed supplies inflation assumption of 3.0 per cent is not reflective of current market conditions. The Commission has taken into account the recommendations of the CCA and the UCA and considers that the 0.9 per cent proposed by the UCA is too low given the current exchange rate, which ATCO Pipelines has indicated will translate into increased costs for goods and services procured from the United States.[245]

395. The Commission, in factoring the current market conditions that are expected to result in lower supplies costs and the counterbalancing current exchange rate, finds that the recommendation of 1.7 per cent for supplies inflation for 2015 and 2016 is reasonable given the current market conditions and the higher exchange rate affecting supply costs. As a result, the Commission directs ATCO Pipelines to use a supplies inflation factor of 1.7 per cent.

6.3.1 International Organization for Standardization (ISO) – International Standards 55001 (asset management)

396. ATCO Pipelines stated that in the 2015-2016 test period, it had retained a third-party expert to undertake a gap analysis to assess its current processes and documentation relative to the ISO 55001 standard. A second deliverable of this effort will be to produce a roadmap for ATCO Pipelines to achieve ISO certification. ATCO Pipelines forecast that internal resources will be required to support the gap analysis and road mapping effort and has included forecast operating costs in the order of $1.6 million for the third-party consultant and additional internal resources (two FTEs) required for these exercises. ATCO Pipelines is not forecasting costs associated with ISO certification in the 2015-2016 test period.

241 Exhibit 3577-X0341, CAPP reply argument, pages 1-2.
242 Statistics Canada reported CPI at annual rate of 1.7 per cent and average weekly earnings are down 1.23 per cent.
243 Exhibit 3577-X0331, CCA argument, page 27.
244 Exhibit 3577-X0347, ATCO Pipelines reply argument, pages 43 and 46.
245 Exhibit 3577-X0060, AP-AUC-2015FEB03-002.

397. Calgary noted that it had no fundamental objection to the use of ISO 55001, as long as the proper steps were taken for development of an asset management system.[246] Calgary argued that until ATCO Pipelines has followed the procedures and processes outlined by ISO standards, and has filed a full and proper business case, the costs of ATCO Pipelines' proposed asset management activities, in the current application, should be disallowed.[247]

398. Calgary considered that from the following testimony of the ATCO Pipelines witness panel it was clear that ATCO Pipelines did not know where the organization stands in order to become ISO compliant:

> At page 86 of Volume 1 of the transcript:
> 3 The stage the company is at right now is, as
> 4 Mr. Schmidt will be able to point you out to, **is one**
> **5 where we're evaluating where we are with respect to**
> **6 ISO 55001 accreditation, and we will go through that**
> **7 journey.** One would expect when we go through that
> 8 journey we're going to find we're at a certain maturity
> 9 level in terms of where we're at in our processes and
> 10 documentation, and once we understand where our gaps
> 11 are for 55001 certification, we'll take the steps to
> 12 close those gaps and have a process and a system that
> 13 will stand the test of time.
>
> At page 101 of Volume 1 of the transcript:
> 3 We firmly believe we are going about this in a
> 4 very logical plan manner. Our next -- our step in this
> 5 test period is to understand through a gap analysis
> 6 where we are relative to the ISO 55001 standard, then
> 7 provide a road map forward.
> 8 **Once we have that, as we've described already, we**
> **9 will have a much clearer picture on what, if any,**
> **10 further work is required**. And as we've already said,
> 11 we would be before this Commission talking about that
> 12 in our next application and updating the Commission on
> 13 where we are at.
>
> At page 256 of Volume 2 of the transcript:
> 1 **which would give us a maturity rating in the various**
> **2 areas of ISO, of our rating in each of the various**
> **3 areas of ISO, and that would guide us to where we are**
> **4 at a mature level, or where we're not**. And that would
> 5 be one of the key outcomes we expect from our gap
> 6 analysis.[248] [emphasis added by Calgary]

399. Calgary argued that "… nowhere in any of the ATCO application documents is there one shred of evidence of the tangible cost savings and benefits which ISO 55001 indicates will be

246 Exhibit 3577-X0237, CAL-AUC-2015SEP18-003(a)-(b).
247 Exhibit 3577-X0327, Calgary argument, paragraph 18.
248 Exhibit 3577-X0327, Calgary argument, paragraph 74.

realized from being compliant. Nowhere has ATCO Pipelines undertaken a cost benefit analysis to demonstrate a net benefit to Customers."[249]

400. The CCA was concerned about ATCO Pipelines' expenditures related to pursuing ISO 55001 accreditation. The CCA noted that in cross-examination ATCO Pipelines admitted they had not performed a cost-benefit analysis before proceeding with expenditures related to pursuing and investigating ISO 55001 certification. ATCO Pipelines also conceded that no regulatory body or stakeholder had requested or required that they obtain this certification. The CCA submitted that when asked to describe the benefits of this accreditation, ATCO Pipelines was unable to provide a single specific benefit attributable directly to ISO 55001.

401. The fact that ATCO Pipelines was proposing to hire two full-time positions to pursue its asset management implementation convinced the CCA that this was more than a gap analysis.

402. The CCA recommended that the Commission "… direct AP to suspend all expenditures related to the pursuit of ISO 55001 accreditation. Revenue requirements in any future business case must include a specific comparison of the elements of ISO 55001 and those elements required for AP compliance with the Alberta Energy Regulator's mandated requirements of CSA standard Z662 Appendix N." The CCA submitted that customers should not be responsible to pay for incremental expenditures without a complete understanding of the costs and benefits.[250]

403. The UCA supported both Calgary and the CCA in their positions to deny the expenditures related to an ISO 55001 gap analysis.

404. ATCO Pipelines submitted that upon receipt of the gap analysis it will develop its roadmap to work towards achieving certification.

405. In response to suggestions by Calgary that ATCO Pipelines is putting the "cart before the horse' by embarking on its ISO 55001 initiative without a detailed cost-benefit analysis, it explained that the costs cannot be known with any degree of accuracy until the initial work involved in a gap analysis and roadmap are completed. ATCO Pipelines also explained that it was sensitive to the need to balance the benefits of ISO 55001 implementation with costs, but the modest ISO 55001 costs included in the GRA were a reasonable first step in exploring the benefits of ISO 55001.

406. In its application and in testimony, ATCO Pipelines explained how the ISO 55001 initiative is expected to compliment, but not replace, its existing asset management systems and would provide a "… framework of check and balance of what we believe we are doing very well today and help form our documentation such that it aligns with an international standard, as opposed to kind of us drinking our own coffee and saying, 'Yeah, we're doing a good job.' "[251]

Commission findings

407. The Commission does not object to ATCO Pipelines conducting its "gap analysis" for asset management per se but agrees with Calgary and the CCA that such expenditures for a gap analysis are premature. It is unclear what value the gap analysis will provide to ATCO Pipelines' asset management in the test years. The costs for the gap analysis and the two FTEs that were

249 Exhibit 3577-X0327, Calgary argument, paragraph 81.
250 Exhibit 3577-X0331, CCA argument, paragraph 11.
251 Transcript, Volume 1, page 121, lines 20-25.

forecast in the revenue requirement have not been sufficiently supported. For example, ATCO Pipelines' witness stated in response to the CCA:

> Q: …Is there a cost-benefit analysis?
>
> A. MR. HAHN: You know, Mr. Wachowich, as I think as I pointed out earlier in my analysis, at this stage we are in the evaluation of the maturity level. And so what we're going through is the process to see where we're at, what gaps we would have to 55001. We would look to -- and my friend Mr. Schmidt will point this out more significantly, but we would look to ISO certification outside of the test period, likely in 2017, and will evaluate, after looking at what the gaps are and direction we go, we will evaluate and confirm if that's still the right thing to do.
>
> And at that time a -- I would expect the next time we see you in a forum like this we would have a somewhat more precise idea of what the costs of full implementation of ISO 55001 are. And along with that, re-enforcing the benefits we've outlined in the 11 pages in the application that you referred to.[252]

408. The Commission finds with respect to including a gap analysis in revenue requirement for the 2015-2016 test years that:

- ATCO Pipelines has not performed a cost-benefit analysis of spending $1.6 million to conduct a gap analysis and road map to determine whether to bring forth a future business case for implementation of ISO 55001 certification..

- It is uncertain whether additional ISO 55001 certification will provide a benefit to customers given the existing asset management programs ATCO Pipelines has in place.

409. ISO 55001 certification is not currently required to comply with the standards of any regulatory body. There is also insufficient evidence on the record to support that the program is required in addition to the CSA Z662 standard or to maintain safe or reliable service, but rather, ATCO Pipelines indicated that ISO 55001 would act as a "check and balance."[253]

410. Accordingly, the Commission directs ATCO Pipelines to remove the $1.6 million related to the ISO 55001 from revenue requirement during the test years. ATCO Pipelines may choose to provide a proposal for a gap analysis related to ISO 55001 certification in a future GRA.

411. For other O&M labour and supplies costs which include estimates for specific work related to the asset management system projects, such as the costs included in contract services O&M supplies cost category, ATCO Pipelines is directed to recalculate the O&M labour and supplies costs to reflect the denial of the ISO 55001 project costs for the test period.

[252] Transcript, Volume 1, page 89, line 9 to page 90, line 1.

[253] Transcript, Volume 1, page 121, ATCO Pipelines' response to the CCA at lines 7-17, states: "What the ISO 55001 standard does, excuse me, is gives us a protocol in order to check and balance that. So these systems may hold all of the data, but the ISO 55001, should we go to full implementation, gives us a framework to say: Are we checking that? Are we checking it appropriately? What's your audit protocol on that? How often do you check it? And it gives us a road map that's been developed by a third party as opposed to us saying to ourselves, 'Yes, we're good, and we're going to check it in this way.' "

6.4 Administrative and general costs

412. A&G costs are composed of the labour and supplies costs for the general, financial, human resources, corporate communication, regulatory and information management functions of ATCO Pipelines, the costs for legal, audit and consulting services and the costs for insurance, injuries and damages, hearing costs and employee benefits.[254]

413. In addition to inflation, ATCO Pipelines stated that the key drivers of the forecast increases in the test years are due to:

- Additional financial, regulatory and IT resources required to provide data, analysis and reporting support to additional programs required to address system integrity, reliability and safety and the proposed asset management program.
- Additional resources to support and centralize record keeping requirements established in CSA Z662 and to interface with information systems used for risk management and accounting purposes.
- Additional communication personnel, materials and resources to address increased public expectations for consultation and communication.
- Increased insurance costs, additional recruiting and training support for new hires and succession planning.[255]

414. As with O&M supplies discussed above, A&G supplies cost increases due to inflation were assumed to be three per cent for each of the test years where specific cost increases could not be estimated.[256]

415. In the application, ATCO Pipelines provided the following table, which breaks out the components of A&G and the actual and forecast costs:

Table 25. Administration and general expenses by prime account

	2013 actual	2014 actual	2015 forecast	2016 forecast
	($000)			
Advertising	732	735	889	935
Administration*	17,442	15,869	19,788	20,721
Special services	1,742	530	1,122	1,060
Insurance	2,141	1,926	2,369	2,486
Employee benefits	3,301	3,177	3,399	3,524
Other admin and general	4,603	4,672	4,825	4,820
Recovery of costs – A&G	(75)	(47)	(47)	(47)
Less disallowed costs	(2,982)	(3,000)	(1,481)	(1,415)
Total	**26,904**	**23,862**	**30,864**	**32,084**

Source: Exhibit 3577-X0033, AP-CCA-2015FEB03-012(b).
*Note: only the administration category has a labour cost component (per Exhibit 3577-X0039, AP-CAL-2015FEB03-052(l-q) Attachment).

254 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2, page 1 of 4.
255 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.2, pages 1-2 of 6.
256 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.4, Table 1.4-1.

416. The category "other admin and general" was broken down, as follows:

Table 26. Breakdown of other admin and general expenses

	2013 actual	2014 actual	2015 forecast	2016 forecast
	($000)			
Employees Participating in Communities (EPIC) match	190	209	216	222
Standby fees	436	318	296	282
AUC operating costs	2,681	2,900	2,900	2,900
Rate case expense	1,150	1,150	1,281	1,281
Other items less than $1000,000	146	95	132	135
Total	**4,603**	**4,672**	**4,825**	**4,820**

Source: Exhibit 3577-X0033, AP-CCA-2015FEB03-012(a).

417. In response to an IR, ATCO Pipelines stated that the decrease in A&G from 2013 to 2014 was due to decreases in administration. This was namely due a lower allocation of ATCO corporate costs when the allocation methodology was updated to comply with Decision 2013-111,[257] a decrease in special services resulting from lower legal and consulting costs due to fewer regulatory proceedings in 2014, a decrease in insurance due to a one-time WCB credit received in 2014 and a one-time membership credit from ATCO Pipelines' property insurance provider, and a decrease in employee benefits due to lower pension costs as a result of an updated actuarial valuation for the years 2014-2016. The reductions in administration and employee benefits cost categories that occurred in 2014 are forecast to continue in 2015 and 2016.[258]

418. The difference between actual costs and approved costs for A&G in 2013 and 2014 were mainly due to lower VPP payment and pension costs, which are subject to deferral treatment. In 2013, the difference was also attributed to a decrease in corporate cost allocations, lower labour and travel expenses due to vacancies and lower relocation and training expenses. In 2014, the difference is also attributed to vacancies and delays in hiring due to long recruiting time, lower IT costs resulting from a greater portion of IT costs supporting capital activities, and the one-time WCB credit.[259]

419. In argument, CAPP disagreed with A&G costs associated with EPIC match fees, which are "a match for donations" in the amounts of $216,000 in 2015 and $222,000 in 2016 and recommended that those costs be disallowed, consistent with past Commission decisions which disallowed ATCO Pipelines corporate donations.[260]

420. In reply argument, ATCO Pipelines noted that the evidence shows that these costs are included in disallowed donations and sponsorships and that placeholders for disallowed donations and sponsorships are no longer required given the Supreme Court of Canada's recent decision on pension costs.[261]

257 Decision 2013-111: The ATCO Utilities, Corporate Costs, Proceeding 1920, Application 1608510-1, March 21, 2013.
258 Exhibit 3577-X0283, AP-UCA-2015FEB03-060(a)-(b).
259 Exhibit 3577-X0283, AP-UCA-2015FEB03-061(a).
260 Exhibit 3577-X0326, CAPP argument, page 13.
261 Exhibit 3577-X0347, ATCO Pipelines reply argument, page 14.

Commission findings

421. ATCO Pipelines has indicated that EPIC match fees are not included in A&G forecast costs as they are included in disallowed costs. The Commission accepts this explanation and finds that those fees are correctly included in disallowed costs and have not been included in the revenue requirement.

422. The Commission has reviewed the forecast A&G costs and finds that the forecasts are reasonable given the information provided in tables 25 and 26 above and are approved, subject to the findings above regarding supplies inflation. Consistent with the direction on supplies inflation in Section 6.3, the Commission directs ATCO Pipelines to revise its forecast A&G costs to use the approved 1.7 per cent for supplies inflation, where applicable and to provide a revised Table 25 in its compliance filing to this decision.

6.5 IT costs

423. On June 4, 2015, the Commission issued Bulletin 2015-11[262] which initiated the ATCO Utilities IT common matters proceeding (Proceeding 20514) to examine IT costs related to the IT services MSAs. ATCO Pipelines was directed to refile certain information related to IT costs in Proceeding 20514. Accordingly, the remaining IT issues to be examined in this proceeding are IT volumes, ATCO Pipelines' planning and governance of its IT architecture and infrastructure and related expenses. The Commission did not remove any records pertaining to other IT matters, which had been submitted prior to issuing Bulletin 2015-11. However, this decision will only examine those IT issues which are at issue in this proceeding.

424. IT services which are charged to operating costs include costs to operate, maintain and distribute existing and new IT applications required by ATCO Pipelines to manage its financial, human resources and operational activities. These services also include charges for the provision of hardware e.g. PCs, laptops, monitors; network, voice (telecommunications), data storage and printing and infrastructure; and ad hoc service requests. Effective January 1, 2015, these services are provided to the ATCO Utilities by Wipro Solutions Canada Limited (Wipro).[263] IT services were previously provided by ATCO I-Tek which was sold to Wipro in September 2014.

425. In response to IRs, ATCO Pipelines provided redacted copies of the previous MSA, between ATCO and ATCO I-Tek,[264] and the current MSA between ATCO and Wipro.[265]

426. In contracting with Wipro, ATCO Pipelines stated that it, and ATCO Group, did not formally document the assessment of the impact of risks and balancing of risks on pricing in the contract. ATCO Pipelines indicated that the Wipro contract was negotiated utilizing expert advice to ensure appropriate balance of risk and value.[266] To properly manage the MSA, mechanisms were put in place to allow for the appropriate level of flexibility, change, price

[262] Bulletin 2015-11, Initiating the ATCO Utilities information technology common matters proceeding to examine IT costs related to the master services agreements between the ATCO Utilities and Wipro Solutions Canada Limited, June 4, 2015.

[263] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.5, page 1 of 2.

[264] Provided in exhibits 3577-X0280, 3577-X0281 and 3577-X0282, AP-UCA-2015FEB03-053(a) Attachment.

[265] Provided in exhibits 3577-X0289, 3577-X0290, 3577-X0291, 3577-X0292 and 3577-X0293, AP-AUC-2015FEB03-091(d) Attachment.

[266] Exhibit 3577-X0037, AP-CAL-2015FEB03-011(v)-(w).

protection and industry validation along with terms and conditions that protect ATCO Pipelines in the event of non-delivery by the service provider.[267]

427. ATCO Pipelines further indicated that the Wipro MSA was negotiated such that some risks could be allocated to Wipro so that costs could be controlled. The Wipro MSA addressed changes in market conditions and risks that had occurred from the previous MSA.[268] ATCO Pipelines noted however that greater risk to a supplier may lead to increased costs to manage the risk, but does not necessarily imply a greater margin.[269]

428. In the application, ATCO Pipelines provided the actual IT costs in 2013 and 2014 and the forecast costs for 2015 and 2016. ATCO Pipelines noted that IT costs under ATCO I-Tek were charged under affiliate services until August 2014 and then under supplies from September 2014 onward. The table below was provided by ATCO Pipelines, in support of its IT costs:

Table 27. IT services charged to operations

Service provider	2013 actual	2014 actual	2015 forecast	2016 forecast
		($)		
ATCO I-Tek	3,506,000	2,686,925	-	-
Wipro	-	917,419	3,729,000	3,813,000
Total	**3,506,000**	**3,604,384**	**3,729,000**	**3,813,000**

Source: Exhibit 3577-X0287, AP-CAL-2015FEB03-049(a).

429. ATCO Pipelines explained that its IT costs are forecast to increase in 2015 and 2016 primarily due to costs related to: the implementation of PIMS in late 2014 and higher IT costs to support ATCO Pipelines' growing workforce as a result of pipeline and facility integrity requirements, pipeline and facility system changes, and to deal with the loss of knowledge and experience due to staff retirements and turnover.[270] In response to an IR, ATCO Pipelines indicated that Wipro's prices for IT services under the current MSA are less than the prices for IT services under the ATCO I-Tek MSA.[271]

430. In response to an undertaking, ATCO Pipelines provided an analysis of IT O&M and capital indirect labour costs. The undertaking response showed that costs are allocated by user for costs such as user-IDs, licence purchase maintenance, hardware, service requests and voice, while application costs are allocated by application based on use or purpose and infrastructure costs are allocated using a corporate allocation of 65 per cent O&M to 35 per cent capital. The result is that 67 per cent of IT costs, excluding direct capital costs, are direct O&M.[272]

431. The IT baseline volumes, forecast from 2015 to 2024, are found in Appendix C of the Wipro MSA.[273]

432. In response to an IR, ATCO Pipelines indicated that the change in forecast IT workload from 2014 to 2015 is primarily due to the hosting and asset management fees associated with the

267 Exhibit 3577-X0037, AP-CAL-2015FEB03-016(f).
268 Exhibit 3577-X0037, AP-CAL-2105FEB03-007(a)-(c).
269 Exhibit 3577-X0037, AP-CAL-2015FEB03-011(o).
270 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.5, page 2 of 2.
271 Exhibit 3577-X0037, AP-CAL-2015FEB03-012(c).
272 Exhibit 3577-X0305, ATCO Pipelines undertaking, 2014 O&M, page 1.
273 Exhibit 3577-X0293, AP-AUC-2015FEB03-091(d) Attachment.

implementation of PIMS. The forecast IT workload increases from 2015 to 2016 are due to the hosting and asset management fees associated with the implementation of the capital and O&M budgeting, planning and forecasting system. ATCO Pipelines indicated that the change in forecast IT storage volumes from 2014 to 2015 and from 2015 to 2016 are based on historical volume growth and staff growth.[274]

433. IT governance structures and ATCO Pipelines' governance responsibilities related to the management of the MSA are found in Schedule P of the amending agreement to the Wipro MSA.[275] In response to an IR, ATCO Pipelines stated that it prioritizes its governance activities to ensure that critical application service levels are being met and that ATCO Pipelines and Wipro are complying with their respective obligations under the MSA; ensuring that billing reflects the correct services, volumes and rates and the payment to Wipro is properly authorized; and comparing Wipro baseline volumes to actuals on a monthly basis. ATCO Pipelines governance activities are performed by ATCO Pipelines personnel.[276] In response to an IR, ATCO Pipelines confirmed that day-to-day IT-related activities between ATCO Pipelines and Wipro are directed to Wipro's customer support centre, while broader issued are handled through ATCO Pipelines' business technology management group. ATCO Pipelines' business technology management group communicates directly with ATCO Pipelines' client delivery partner in Wipro on a day-to-day basis.[277]

434. In its argument, Calgary recommended that ATCO Pipelines be directed to: file all IT related volumes as part of an application for all future GRAs, pursue Wipro global project delivery and file a strategy document in the next GRA, reduce IT expenditures to where ATCO Pipelines' metrics fall in the first quartile as measured by KPMG,[278] reduce direct capital IT labour volume to a level that aligns with the average of 2013 and 2014, reduce indirect capital IT volumes so that the indirect IT volume to O&M IT volume is equal to the average percentage from 2013 and 2014, and ensure that IT service prices for 2015 should be no higher than those the Commission ordered ATCO Pipelines to apply in 2015 in Decision 2014-169.[279] [280] These recommendations are explored individually below.

435. Calgary provided the following observations regarding ATCO Pipelines' IT expenditures:

- ATCO Pipelines used only O&M IT costs from Wipro in its metric, whereas the KPMG metric includes total IT outsource spend as a percentage of revenue and total outsource IT spend per user. Calgary understands that ATCO Pipelines' metric does not include the total of O&M, indirect capital and direct capital contrary to the KPMG metric.

274 Exhibit 3577-X0037, AP-CAL-2015FEB03-004(h)-(i).
275 Exhibit 3577-X0293, AP-AUC-2015FEB03-091(d) Attachment.
276 Exhibit 3577-X0284, AP-CAL-2015FEB03-028(e)-(f).
277 Exhibit 3577-X0286, AP-CAL-2015FEB03-036(b).
278 The KPMG report which reviewed the pricing provisions of the IT MSAs to assess the pricing against fair market value was provided in AP-AUC-CONF-2015FEB03-091(b) Attachment.
279 Decision 2014-169 (Errata): ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.), 2010 Evergreen Proceeding for Provision of Information Technology and Customer Care and Billing Services Post 2009 (2010 Evergreen Application), Proceeding 240, Application 1605338-1, February 6, 2015. Decision 2014-169 was issued June 13, 2014.
280 Exhibit 3577-X0327, Calgary argument, pages 8-9.

- The metric for ATCO Pipelines outsourcing is close to the peer 75th percentile in terms of the KPMG metrics which indicates that ATCO Pipelines outsourcing costs are high relative to the KPMG peer group.
- ATCO Pipelines' total IT spend as percentage of revenue has increased approximately 30 per cent since 2012, and over that period there had been significant growth in ATCO Pipelines' FTEs, which would be expected to reduce total IT spend per user. However, ATCO Pipelines' total IT spend and FTEs, together with the industry metrics (KPMG and Gartner Group[281]) show that IT spend in the test years is excessive.[282]

436. Calgary argued that third-party metrics, such as those from Gartner Group and KPMG, indicate that ATCO Pipelines' overall IT expenditures are excessive. Calgary argued that industry standard metrics are the proper way to gauge whether IT expenditures are reasonable at any point in time or over time. Accordingly, Calgary requested that total IT expenditures be reduced so that the IT spend falls within the first quartile, as specified by KPMG.[283] Calgary argued that it is irrelevant for the Commission to consider capital growth or safety as a driver for IT expenditures.

437. In response to Calgary, ATCO Pipelines referred to its argument and rebuttal evidence where it indicated that the KPMG report is to demonstrate fair market value for Wipro, and it was not intended for benchmarking. Additionally, the KPMG report is a comparison of ATCO Group and its peers, therefore comparison to ATCO Pipelines is not valid. And finally, the KPMG report is not an indicator of ideal IT spend, rather it is a comparison of the level of IT outsourcing efforts of ATCO and its peer group.[284]

438. ATCO Pipelines indicated that increased IT spend per user is not affected in a similar manner between all categories of total IT spend (O&M, indirect capital and direct capital) and that IT spend per user is growing largely due to increased capital spending.[285]

439. In reply argument, Calgary submitted that cost per user should fall as the number of users increases because costs are spread over a larger FTE base but also because the larger IT investment should result in greater productivity.[286]

440. In Calgary's view, the Wipro MSA provides for global services but ATCO Pipelines does not use or optimize global resources, which would impact IT volumes and pricing resulting in lower costs to customers.[287] In its rebuttal, ATCO Pipelines indicated that Schedule D of the Wipro MSA contains a provision that limits the amount of Wipro work that can be performed offshore and that sourcing strategy is an issue currently under consideration by ATCO Pipelines and Wipro. ATCO Pipelines stated it takes time to develop Wipro's offshore resources and ATCO Pipelines must establish confidence in Wipro's offshoring capabilities. Finally, while offshore resources tend to be lower than onshore, these savings could be lost through additional

281 A current report from the Gartner Group was not provided on the record of this proceeding. Calgary stated in response to CAL-AUC-2015SEP18-008 in Exhibit 237 at PDF page 9: "Calgary understands that the IT industry relied on and uses the metrics of the Gartner Group. Calgary also understands that data in provided by Computer Economics. Calgary does not have a copy of a current report issued by either metrics provider."
282 Exhibit 3577-X0227, Calgary evidence, pages 31-32.
283 Exhibit 3577-X0327, Calgary argument, pages 26 and 28.
284 Exhibit 3577-X0328, ATCO Pipelines argument, page 59.
285 Exhibit 3577-X0265, ATCO Pipelines rebuttal, page 35.
286 Exhibit 3577-X0343, Calgary reply argument, page 9.
287 Exhibit 3577-X0227, Calgary evidence, page 30.

work due to increased communication and/or oversight requirements.[288] Calgary stated that it disagrees and ATCO must have negotiated the global resource provisions in the MSA for a reason. Also, Wipro took on ATCO I-Tek employees who would be familiar with ATCO Pipelines' requirements. In Calgary's view, two years of the 10-year Wipro contract have been used by ATCO Pipelines in "evaluating what it can do."[289]

441. In reply argument, ATCO Pipelines restated that Wipro is a new provider, after a long history with another IT provider and it will take time to understand Wipro's services and explore their suitability for ATCO Pipelines to ensure there will be no adverse impact to ATCO Pipelines' services and operations. The recommendation to provide a strategy to maximize offshoring makes the assumption that offshoring is always better and there is no evidence to support that position.[290]

442. With regard to an additional recommendation by Calgary to use pricing from Decision 2014-169, Calgary argued that changing IT providers does not change the effect of the Commission's decision and direction on 2015 IT prices. An application to review and vary the decision was denied and therefore, the decision and its direction remain binding.[291]

443. In reply argument, ATCO Pipelines reiterated that the pricing in this application relates to a new provider. Decision 2014-169 relates only to rates for the prior period and neither it, nor the Commission are bound by the order and directions. ATCO Pipelines submitted that the best evidence at the current time is the level of costs in the Wipro MSA.[292]

Commission findings

444. The Commission is cognizant that there is an ongoing ATCO Utilities IT common matters proceeding, Proceeding 20514,[293] that will determine whether the MSA pricing is reasonable. Given that the total forecast IT costs are calculated from the forecast IT volumes and the negotiated IT pricing, total IT costs are to be treated as placeholders in this proceeding, pending a determination in Proceeding 20514.

445. Consistent with the Commissions July 30, 2015 ruling on the record of this proceeding,[294] the Commission considers that a determination of whether IT service prices approved in Decision 2014-169 for 2015 is beyond the scope of the current proceeding and is more appropriately dealt with in Proceeding 20514.

[288] Exhibit 3577-X0265, ATCO Pipelines rebuttal, pages 39-40.
[289] Exhibit 3577-X0327, Calgary argument, pages 33 and 35.
[290] Exhibit 3577-X0347, ATCO Pipelines reply argument, page 66.
[291] Exhibit 3577-X0327, Calgary argument, page 36.
[292] Exhibit 3577-X0347, ATCO Pipelines reply argument, PDF pages 64-65.
[293] Proceeding 20514, the ATCO Utilities IT common matters proceeding.
[294] Exhibit 3577-X0208, Commission's July 30, 2015 ruling, paragraph 23, where the Commission stated: "Bulletin 2015-11 directed ATCO Pipelines to refile IT responses from Proceeding 3577 onto the record of Proceeding 20514. The Commission did not delete the IT responses from the record of Proceeding 3577 but merely restricted the scope of the proceeding. As a result, these IR responses remain on the record of the proceeding and may be utilized by Calgary for preparing cross-examination of ATCO Pipelines' planning and governance related to its IT architecture and infrastructure and governance-related expenses, but not for the purposes of testing forecast costs of IT governance of services provided by Wipro, or the sourcing or the pricing of IT services provided by Wipro, which will be examined in Proceeding 20514."

446. The Commission considers that the matter brought forward by Calgary with regard to offshore capabilities of Wipro is generally related to pricing, despite Calgary's submissions that, "This is not simply a matter of pricing, but a much broader matter of IT strategy that would likely impact both IT volume and pricing."[295] In any event, there is insufficient evidence on the record of this proceeding to evaluate the impact of offshoring on IT volumes or pricing. ATCO Pipelines has indicated that it is in the process of investigating Wipro's offshoring capabilities and how that will impact ATCO Pipelines' services and operations.

447. The Commission considers it reasonable for ATCO Pipelines to investigate the impact of using offshore resources and anticipates that the examination of the MSA may occur in Proceeding 20514. As such, the Commission considers the issue of offshore capabilities of Wipro to be outside the scope of this proceeding and the Commission will not direct ATCO Pipelines to file further information in the compliance filing.

448. The Commission considers that the GRA proceeding remains the appropriate forum in which to examine IT volumes. This is consistent with Decision 2014-169, where the Commission found, "The pricing for ATCO Electric and ATCO Gas, as determined in accordance with this decision, shall be applied to forecasted volumes through each respective utility's GRA/GTA process."[296]

449. In order to evaluate the forecast IT volumes, to which pricing will be applied as determined in the IT common matters proceeding, it is necessary for all IT related volume data to be filed in the next GRA proceeding.

450. The Commission has examined the evidence on the record for forecast IT volume and has some concerns with the information provided. The increase in IT volumes is largely attributed to staff growth, which in turn, has been attributed to: increased capital spending, increased pipeline integrity work, increased regulatory compliance obligations and responding to increased public expectations, and increased numbers of retirements during the test period and subsequent years. The evidence also shows that IT volumes are largely determined on a per user basis. Given the changes in the economic environment, it is not reasonable to assume that the increased capital spending and increased staff due to retirements will occur at the level originally anticipated by ATCO Pipelines.

451. Additionally, the Commission has denied ATCO Pipelines' forecast costs for the asset management IT capital projects (Hyperion, Maximo Phase 2 and the GIS, PIMS and MMS enhancements), which may have a corresponding impact on IT volumes. The Commission understands that forecast baseline volumes are specified in the Wipro MSA, but for the purposes of this application, directs ATCO Pipelines to submit revised forecast IT volumes in the compliance filing, which take into account the denial of the asset management IT capital projects in this decision and to account for changes in ATCO Pipelines' forecast staffing levels as a result of the recent announcement of employee reductions by the ATCO Group.

452. The Commission further directs ATCO Pipelines to file all of its forecast IT volume data for the test period and actual volumes from the previous test period, in all future GRAs.

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295 Exhibit 3577-X0327, Calgary argument, page 30.
296 Decision 2014-169 (Errata), paragraph 468.

6.6 Licence fees

453. ATCO Pipelines submitted that, commencing January 1, 2015, all subsidiaries of ATCO Ltd. were required to pay a fee associated with the fair market value of benefits received from the use of intangibles, set at one per cent of operating profit for each ATCO Ltd. subsidiary. ATCO Pipelines included a licence fee of $628,000 for 2015 and $684,000 for 2016 in its application.

454. On October 9, 2015, the Commission issued a ruling determining that a separate process was required to allow parties sufficient time to address the licencing fee and a placeholder of zero dollars was assigned to the licence fee included in this application.[297]

455. In a letter dated October 28, 2015,[298] the Commission determined that the issue of licence fees would be heard in a common licence fee proceeding with ATCO Electric in order to allow the Commission to address the licence fee issues related to both the ATCO Electric GTA and the ATCO Pipelines GRA.[299] This matter is currently being heard in Proceeding 21029, which will address ATCO Electric Transmission's 2015-2017 and ATCO Pipelines 2015-2016 licence fees. The Commission directed ATCO Electric and ATCO Pipelines to file a joint licence fee application with the Commission and therefore the Commission makes no determination on the licence fee issue in this application. The Commission directs ATCO Pipelines to include a zero dollar placeholder as directed in the Commission's October 9, 2015 ruling in its compliance filing to this proceeding.

6.7 ATCO Mexico

456. The CCA argued that ATCO Pipelines' involvement with affiliate ATCO Pipelines, S.A de C.V. (ATCO Mexico) who is constructing a pipeline in Mexico, using ATCO Pipelines' personnel that form part of the revenue requirement in this application, is significant and the CCA submitted that in this program ATCO Pipelines is undertaking a record capital program and that greater disclosure regarding this arrangement is required.[300] Because of ATCO Pipelines' desire to execute this safety driven work as soon as practical, along with the vacancy levels identified in the proceeding and the experience gap that ATCO Pipelines has identified, the CCA is concerned with the prudency of the allocation of ATCO Pipelines' resources to an affiliate.[301]

457. The CCA requested that the Commission direct ATCO Pipelines to submit a complete disclosure of the regulated company's allocation of resources for ATCO Mexico including the potential use of ATCO Pipelines' control centre, and any processes, procedures or management systems developed by ATCO Pipelines and utilized by the affiliate ATCO Mexico for the proposed duration of this affiliate relationship. Furthermore, the CCA requested that this disclosure include all staffing requirements, including those staff selected to work full-time with ATCO Mexico and any other staff requests that form part of the revenue requirements of the GRA.[302]

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297 Exhibit 3577-X0276, AUC ruling on UCA motion, October 9, 2015.
298 Exhibit 3577-X0325, AUC letter – Process to address licence fees, October 28, 2015.
299 The Commission established Proceeding 21029 to hear the joint licence fee application.
300 Exhibit 3577-X0331, CCA argument, paragraph 95.
301 Exhibit 3577-X0331, CCA argument, paragraph 96.
302 Exhibit 3577-X0331, CCA argument, paragraph 97.

458. ATCO Pipelines explained that it follows its affiliate code of conduct for all dealings with affiliates and that ATCO Mexico is no different. Additionally, ATCO Pipelines stated that it had testified at the hearing that the dollars involved were very modest, that there were only five individuals that were involved and that the majority of the related costs were of a flow-through nature.[303] With respect to the potential use of ATCO Pipelines' control centre, ATCO Pipelines also submitted that this had not yet been determined and that any such potential future involvement would have to go through its prudence determination process, which was no different from any other affiliate arrangement.[304]

459. ATCO Pipelines submitted that the CCA's request for extensive further information on ATCO Mexico related costs should be denied and that the CCA had the opportunity to explore the affiliate costs in the proceeding. ATCO Pipelines further stated that it is required to complete its annual affiliate code of conduct filings with respect to its affiliate arrangements and that there is no reason to put the burden of producing the type of information requested by the CCA outside of general rate application and code of conduct processes.[305]

Commission findings

460. The Commission considers that the recommendation of the CCA would increase filing requirements beyond what is currently required from ATCO Pipelines with respect to its affiliates. ATCO Pipelines is required to follow its affiliate code of conduct for all dealings with its affiliates, including ATCO Mexico. Ultimately, the burden of demonstrating to the Commission that its forecast costs are reasonable rests with the utility for those forecast costs related to utility service and those costs related to affiliates. Additionally, it is open to the Commission and interveners through the regulatory process to request additional information that may be required in IRs and though cross-examination to test the allocation of resources to affiliates.

461. The Commission is not convinced at this time that the additional information requested by the CCA is necessary given the information provided by ATCO Pipelines on the record of the proceeding. The record supports that sufficient information has been provided to test the forecast affiliate costs with respect to the test years. Interested parties or the Commission may request further information, as required, in future general rate applications or in future code of conduct proceedings, should further information be required.

7 Return on rate base

462. On March 23, 2015, the Commission issued Decision 2191-D01-2015, the 2013 GCOC decision. In its decision, the Commission approved a generic rate of return on common equity of 8.30 per cent for 2015 for Alberta transmission and distribution utilities, including ATCO Pipelines. The Commission also approved a capital structure of 63 per cent debt and 37 per cent equity for ATCO Pipelines for 2015. The ROE and capital structure were approved on an interim basis for 2016 and each subsequent year thereafter, unless otherwise directed by the Commission.

303 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraphs 111-114.
304 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 115.
305 Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 116.

7.1 Return on equity and capital structure

463. ATCO Pipelines' updated application included an ROE of 8.30 per cent for 2015 and a capital structure of 37 per cent equity and 63 per cent debt for 2015, as per the Commission's 2013 GCOC decision. ATCO Pipelines submitted that it had included the same ROE and capital structure for 2016 as a placeholder pending the outcome of the 2016 GCOC proceeding.[306]

Commission findings

464. The Commission finds ATCO Pipelines has incorporated the most recently approved ROE of 8.30 per cent for 2015 into its updated application on a final basis, and for 2016 on an interim basis. The updated application is consistent with the Commission's findings in Decision 2191-D01-2015, the 2013 GCOC decision. The Commission finds ATCO Pipelines' use of the approved capital structure from the 2013 GCOC decision of 63 per cent debt and 37 per cent equity for 2015 on a final basis, and for 2016 on an interim basis, included in ATCO Pipelines' updated application to be consistent with the Commission's findings in Decision 2191-D01-2015. The ROE and capital structure included in ATCO Pipelines' updated application are approved, as filed.

7.2 Costs associated with long-term debt

465. ATCO Pipelines forecast a 2015 long-term debt issue of $155,000,000 at 4.00 per cent and a 2016 long-term debt issue of $130,000,000 at 4.65 per cent.[307] ATCO Pipelines derived its forecast cost of new debt by using forecast rates for 30-year government of Canada bonds, plus a forecast credit spread. The table below shows ATCO Pipelines updated debt rate forecast:

Table 28. ATCO Pipelines' updated debt rate forecast

	2015	2016
	(%)	
30-year government of Canada bond rate	2.50	3.15
Credit spread	1.50	1.50
Debenture rate	**4.00**	**4.65**

Source: Exhibit 3577-X0064, AP-AUC-2015FEB03-075.

466. In determining the 30-year government of Canada bond rate forecast, CU Inc.[308] considered advice and forecasts provided by its capital markets advisors[309] and consensus forecasts provided by Consensus Economics Inc. As *Consensus Forecasts* are only provided for 10-year Canada bond rates, an observed differential between the 10-year and the 30-year Canada bond rates was used to derive the 30-year Canada bond rate forecast. Using data from the bank forecasts and the *Consensus Forecasts*, and based on discussions with CU Inc.'s capital markets

306 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 3.1, page 1 of 9.
307 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 3.1, page 1 of 9. At Transcript, Volume 1, page 19, line 19, Mr. Shkrobot clarified that the long-term debt rates in the updated application were inadvertently excluded.
308 ATCO Pipelines is a division of ATCO Gas and Pipelines Ltd., which is a wholly owned subsidiary of CU Inc. CU Inc. is the entity that goes to market to raise debt for ATCO Gas and Pipelines Ltd.
309 Capital markets advisors for ATCO Pipelines are: Bank of Montreal, Royal Bank of Canada, Scotiabank and Toronto Dominion Bank.

advisors, an appropriate range was then determined for the 30-year Canada bond rate. ATCO Pipelines used the mid-point of that range for its 30-year Canada bond rate forecast.[310]

467. To forecast 2015 and 2016 credit spreads, CU Inc. considered data and input from its capital markets advisors as well as actual credit spreads associated with CU Inc.'s recent debenture issues. ATCO Pipelines stated that a reasonable range was then determined and the mid-point of the range is used for ATCO Pipelines' forecast credit spread.[311]

468. ATCO Pipelines submitted in argument that its revised debt rate forecast in its updated application of 4.00 per cent for 2015 and 4.65 per cent for 2016 remains reasonable. ATCO Pipelines acknowledged that the Bank of Canada rate had decreased by 25 basis points since the time of its update but explained that at the same time its credit spread had increased by 30 basis points from 150 to 180, effectively offsetting the Bank of Canada increase.[312]

469. ATCO Pipelines submitted at the oral hearing that it had gone through a debenture issue in July 2015 and had obtained a rate of 3.964 per cent.[313]

470. The CCA submitted that because CU Inc. mirrors down the debt rate it receives to its subsidiaries, and because the actual rate for 2015 long-term debt costs is known, ATCO Pipelines should use the 3.964 per cent as its forecast cost of debt for 2015.[314]

471. For the 2016 forecast cost of debt, the CCA took issue with ATCO Pipelines' forecasting methodology and argued that the *Consensus Forecasts* are a more reasonable estimate of the long or 30-year bond rate. The *Consensus Forecasts* are the primary forecast used in proceedings such as the generic cost of capital, and the *Consensus Forecasts* are compiled from numerous experts in the field including experts within banks. Therefore, the *Consensus Forecasts* provide a broader measure of opinion than ATCO Pipelines' measure of cost of debt.

472. The CCA also submitted that ATCO Pipelines selects the banks' forecasts that it uses and the fact that it only uses four banks leads to a bias.[315] The CCA submitted that ATCO Pipelines' forecast is overstated because it takes the mid-point of its range of estimates, not the average. In addition, its forecasts are for the end of the year and because rates are forecast to rise, this leads to an overstatement of the forecast interest rate during the year.[316] Adjusting ATCO Pipelines' end of 2016 year rate back to mid-year, results in mid-year value of the bank forecast of 2.885 per cent or a 23.5 basis point reduction in the forecast, simply by using the mid-year value.[317]

473. The CCA acknowledged that, with one exception, from 2010 to 2014 the *Consensus Forecasts* have over-forecasted rates. However, the over-forecast is reasonable when compared with the forecasts used by ATCO Pipelines.[318] The CCA recommended a revised forecast debt rate of 3.99 per cent for 2016, as reflected in the table below:

310 Exhibit 3577-X0064, AP-AUC-2015FEB03-075.
311 Exhibit 3577-X0064, AP-AUC-2015FEB03-075.
312 Exhibit 3577-X0328, ATCO Pipelines argument, paragraphs 145-147.
313 Transcript, Volume 1, page 66, lines 14-17.
314 Exhibit 3577-X0331, CCA argument, paragraphs 50-52.
315 Exhibit 3577-X0331, CCA argument, paragraphs 61 and 64.
316 Exhibit 3577-X0331, CCA argument, paragraphs 60 and 62.
317 Exhibit 3577-X0331, CCA argument, paragraph 63.
318 Exhibit 3577-X0331, CCA argument, paragraphs 65-66.

Table 29. CCA revised debt rate forecast for 2016

Description		2016
	(%)	
Consensus forecast, 10-year (Exhibit 3577-X0297)		
December 2015	1.7	
December 2016	2.2	
2016 mid-year	1.95	1.95
10-30 year bond differential (Exhibit 3577-X0064, AP-AUC 75)		0.54
Credit spread (Exhibit 3577-X0064, AP-AUC 75)		1.50
2016 forecast debt rate		**3.99**

Source: Exhibit 3577-X0331, page 20.

474. The UCA did not oppose ATCO Pipelines' forecast debt rate for 2015 of 4.00 per cent but took exception to the 4.65 per cent forecast for 2016, and stated that the forecast for 2016 was no longer current and had been calculated by ATCO Pipelines using a self-serving methodology. The UCA submitted that ATCO Pipelines had not revised its forecast to reflect any changes to the economic climate since February 2015, including a further interest rate cut by the Bank of Canada in July of 2015.[319]

475. Similar to the CCA, the UCA argued that when looking at long Canada bond rates, ATCO Pipelines only considered an average of the year-end numbers available despite referencing the range for the entire year. The UCA submitted that ATCO Pipelines had admitted that for 2016 all of the banks increased their forecasts towards the end of 2016 and that these forecasts were skewed such that each of the year-end numbers were higher than the forecasts for any other given point in 2016. Further, ATCO Pipelines had not provided an explanation or principled basis for its methodology.[320]

476. As was also noted by the CCA, the UCA took issue with ATCO Pipelines' use of a mid-point instead of considering the annual average of the 2016 forecasts for long bonds. The UCA submitted that the Royal Bank of Canada year-end forecast for 2016 of 3.75 per cent, was 75 basis points higher than any other forecast, and therefore had a disproportionate weight in the calculation.[321]

477. ATCO Pipelines submitted that its historical practice and one that has stood the test of time, has been to consider economic forecasts from its capital markets advisors as well as the *Consensus Forecasts* in determining a reasonable range for the underlying long Canada bond rate forecast. Further, ATCO Pipelines submitted that the four banks it uses represent a good portion of Canada's major chartered banks.[322]

478. ATCO Pipelines explained that the year-end average in its forecast methodology was only shown for illustrative purposes and was not the only quarter considered in determining the appropriate range for the long Canada bond rate forecast, all data points from all quarters as well

319 Exhibit 3577-X0333, UCA argument, paragraphs 47-48.
320 Exhibit 3577-X0333, UCA argument, paragraph 50.
321 Exhibit 3577-X0333, UCA argument, paragraph 52.
322 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraphs 94-95.

as the *Consensus Forecasts* were considered and used in determining the range and that the mid-point of the range is in effect a mid-year forecast.[323]

479. ATCO Pipelines submitted that both the CCA and the UCA ignore the increase in credit spreads. ATCO Pipelines pointed to the testimony of its witness:

> A. MR. SHKROBOT: But what we've also seen during that period of time in CU, as well as other companies out there, our spreads have increased over the long Canadas, where our spreads came into more of 180 basis point. So it was a balancing – counterbalancing impact where the 25 basis point -- long Canada bond rate went down but offset by an increased spread. And that's why our actual 2015 July debt issue came in at 3.964 percent. So right at the overall level of – was included in our application update of 4 percent.[324]

480. ATCO Pipelines stated that its witness was clear that the increase in credit spreads was something that CU Inc. had experienced and that this credit spread was evident in the July 2015 debt issuance.[325]

Commission findings

481. The actual cost of ATCO Pipelines debenture issue in July 2015 was 3.964 per cent. As the actual cost of debt for 2015 is known, the Commission approves ATCO Pipelines 2015 forecast cost of debt at its actual cost of debt of 3.964 per cent, on a final basis.

482. With respect to the forecast cost of debt for 2016, although ATCO Pipelines has used the same methodology as it has used historically, given the current change shown in the *Consensus Forecasts* and long Canada bond rate, the Commission has some concerns with ATCO Pipelines' long-term debt forecasts.

483. ATCO Pipelines stated in reply argument:

> All data points from all quarters as well as the Consensus Forecast were considered and used in determining an appropriate range for each year in question. As outlined in IR response AP-AUC-2015FEB03-75(a), a range of 1.95% to 3.05% was used to determine the 2015 Long Canada Bond Rate forecast of 2.50%. 1.95% was the low first quarter forecast observed and 3.05% was the high fourth quarter forecast observed. So, the mid-point of the range is in effect a mid-year forecast.[326]

484. The Commission is concerned with ATCO Pipelines' use of the mid-point of its range as its long Canada bond rate. Both the CCA and the UCA have suggested that using an average of the long Canada bond rates forecast for the entire year may yield a better forecast, however, in its reply argument ATCO Pipelines did not provide a sufficient explanation on why the approach of the interveners would not yield an adequate forecast for ATCO Pipelines. Additionally, the Commission does not agree with ATCO Pipelines that the mid-point of the range is in effect a mid-year forecast and the Commission finds a more reasonable mid-year forecast would be, for example, to use the year-end bank forecast for 2015 and 2016, calculating the mid-year for each

323 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraphs 96 and 176.
324 Transcript, Volume 2, page 419, lines 10-19.
325 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 179.
326 Exhibit 3577-X0347, ATCO Pipelines reply argument, paragraph 96.

bank forecast and then taking a simple average of the mid-year values provided by the four banks.

485. The CCA has submitted that the *Consensus Forecasts* are a more reasonable estimate of the long Canada bond rate and that it is compiled from numerous experts including experts within banks and therefore it is a broader measure of opinion. The CCA acknowledged that over the past four to five years the *Consensus Forecasts* have over-forecast rates, but noted that ATCO Pipelines bank forecasts in this case are even higher than those of the *Consensus Forecasts*.[327] The Commission considers that the *Consensus Forecast* approach of the CCA is more reasonable and it is supported by the evidence on the record, for the reasons that follow.

486. When comparing the most recent consensus forecast data on the record to ATCO Pipelines' forecast long Canada bond rate for 2016, the Commission finds there to be a 66 basis point difference between the two forecasts, as shown in the table below:

Table 30. Comparison of long Canada bond rates

	2016 (%)
ATCO Pipelines long Canada bond rate (Exhibit 3577-X0064, AP-AUC-75)	**3.15**
2016 mid-year consensus forecast, 10-year (Exhibit 3577-X0297)	1.95
10-30 year bond differential (Exhibit 3577-X0064, AP-AUC-75)	0.54
Implied long Canada bond rate	**2.49**
Difference	**0.66**

487. The Commission finds the 66 basis point difference to be material when compared to the current market conditions and therefore does not approve ATCO Pipelines' 2016 debenture forecast. The Commission finds that in this case, and given the variances between historical forecasting and the actual long Canada bond rate and upward bias in rates, the *Consensus Forecasts* are a more reasonable forecast of the long Canada bond rate, and that the most current *Consensus Forecasts* on the record of this proceeding should be used when determining the 2016 debt rate forecast.

488. With respect to the credit spread, the Commission agrees with ATCO Pipelines and finds that the increase in credit spreads was experienced by CU Inc. in its most current July 2015 debt issuance and therefore a credit spread of 180 basis points should be used when determining the 2016 debt rate forecast.

489. For these reasons, the Commission directs ATCO Pipelines to incorporate the 2016 debt rate 4.29 per cent forecast shown in the following table in its compliance filing application:

[327] Exhibit 3577-X0331, CCA argument, paragraph 66.

Table 31. 2016 debt rate forecast

Description		2016
	(%)	
Consensus forecast, 10-year (Exhibit 3577-X0297)		
December 2015	1.7	
December 2016	2.2	
2016 mid-year	1.95	1.95
10-30 year bond differential (Exhibit 3677-X0064, AP-AUC-75)		0.54
Credit spread (Transcript, Volume 2, page 419, lines 10-19)		1.80
2016 forecast debt rate		**4.29**

7.2.1 Debt rate deferral account

490. ATCO Pipelines applied to have its debt rate deferral account discontinued. ATCO Pipelines submitted that the balance for this deferral account to the end of 2014 is an under-recovery of $20,000. ATCO Pipelines submitted that this deferral account no longer meets the criteria for deferral account treatment, specifically with respect to materiality of the forecast amount and uncertainty regarding accuracy and ability to forecast the amount.[328]

491. CAPP did not support ATCO Pipelines' request to discontinue its debt rate deferral account, and argued that ATCO Pipelines continues to over-forecast its debt costs.[329]

492. The CCA also did not support this request and submitted that the materiality test is based on the amount forecast and not on the current balance of the deferral account. The CCA stated that in terms of materiality, ATCO Pipelines' forecast of $155 million and $130 million in new debt in 2015 and 2016 at 4.00 per cent and 4.65 per cent respectively results in debt issuance amounts and an interest expense in excess of $6 million each year, which is material.[330]

493. ATCO Pipelines provided the following table to demonstrate, in terms of materiality, the under- or over-recovery that occurred in 2013 and 2014:

Table 32. Under-recovery/over-recovery in 2013 and 2014

	2013	2014
Under-recovery/over-recovery	($140,000)	$120,000
Approved revenue requirement	$182,941,000	$192,642,000
% of approved revenue requirement	0.08%	0.06%

Source: Exhibit 3577-X0345, ATCO Pipelines reply argument, paragraph 53.

Commission findings

494. In Decision 2013-430, the Commission directed ATCO Pipelines to establish a deferral account for debenture rates, and stated, as follows:

> 220. ATCO Pipelines was at risk for forecast errors in this item during these test periods, which interveners argued resulted in actual debt interest rates being below forecast. The evidence on the record regarding 2009-2012 demonstrates that ATCO

328 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 1.3, page 3 of 7.
329 Exhibit 3577-X0326, CAPP argument, pages 17-18.
330 Exhibit 3577-X0331, CCA argument, paragraphs 73-74.

Pipelines' forecast debt rates have been above actual debt rates by a material amount. This indicates an ongoing tendency to err on the side of overestimation to protect the utility and customers from likely interest rate forecast errors and uncontrollable risk, the Commission finds that a deferral account for debenture rates should be established for the test period, consistent with Decision 2013-358.[108] [331]

[108] Decision 2013-358: ATCO Electric Ltd. 2013-2014 Transmission General Tariff Application, Proceeding 1989, Application 1608610-1, September 24, 2013.

495. As stated above, the Commission finds ATCO Pipelines debt rate forecasts continue to overestimate debt rates. Although ATCO Pipelines' actual 2015 July debt issue was 3.964 per cent compared to its updated forecast of 4.00 per cent, its 2016 updated forecast of 3.15 per cent for the long Canada bond rate was 66 basis points higher than the 2016 consensus forecast implied long Canada bond rate. Accordingly, the Commission does not approve ATCO Pipelines' request to discontinue its debt rate deferral account for the test years.

8 Deferral and reserve costs and placeholders

496. In Section 1.3 of the application, ATCO Pipelines listed and described all of the reserves and deferral accounts requested. ATCO Pipelines requested the continuation of, revisions to and new reserve accounts and deferral accounts, shown in the table below:

Table 33. Proposed and existing deferral accounts

Deferral account	Description	2014 closing balance ($)	Settlement amount ($)
Deduction of deferrals for tax purposes deferral account*	ATCO Pipelines is requesting discontinuance of the practice of collecting/refunding deferred taxes in test years based on the forecast changes in Commission approved deferral balances and replacing this with a deferral account mechanism which captures the tax impact on the differences between the actual and forecast placeholder amounts.	591,000	591,000
NGTL integration costs deferral account	To capture the difference between actual and approved costs and savings related to integration with NGTL. Decision 2013-430 approved the continued use of this deferral account.	346,000	0
NGTL directed growth capital deferral account	To capture revenue requirement impacts of actual major growth capital projects not included in the test year forecast as well as the revenue requirement impact resulting from the variance between actual and approved general – growth project expenditures.	183,000	183,00
Salt cavern working gas deferral account	To collect the difference between the average cost of the Salt cavern working gas inventory and the market price received when gas is sold for withdrawal purposes plus any related transaction costs.	(175,000)	0
Reserve for injuries and damages	To fund injuries and damages expenses.	(175,000)	0

[331] Decision 2013-430, paragraph 220.

Deferral account	Description	2014 closing balance ($)	Settlement amount ($)
Reserve for regulatory expenses**	ATCO Pipelines is proposing to combine the reporting and recovery of AUC operating fees and hearing costs into a single reserve account. The AUC operating fees deferral account was initially established to capture the difference between actual and forecast AUC operating fees. The reserve for hearing costs was initially established to capture Commission approved hearing costs.	(715,000)	0
VPP deferral account	To collect the difference between actual and approved VPP charged to operations plus the net revenue requirement impact on the variance between actual and approved VPP charges to capital accounts.	(848,000)	(848,000)
2013-2014 pension funding deferral account	To collect the difference between actual and forecast pension payments made for the defined benefit plan including special payments, and the pension funding amounts in ATCO Pipelines' 2013-2014 approved revenue requirement. ATCO Pipelines proposed to settle this account upon receipt of the Supreme Court of Canada ruling and compliance filing decisions from the Commission from ATCO Pipelines' 2013 and 2014 pension applications. The settlement will be incorporated as a one-time adjustment to the monthly revenue requirement billing to NGTL. The pension amounts reflect the 50 per cent CPI COLA adjustment. Disallowed pension amounts are set as placeholders (see Section 8.5 below).[332]	(1,322,000)	0
Negotiated settlement pension funding deferral	To collect the difference between actual pension payments made and the pension funding amounts included in ATCO Pipelines' 2010-2012 negotiated settlement.	(309,000)	(309,000)
UPR deferral*	To capture the difference between actual and approved UPR additions and asset transfer to ATCO Gas and the resulting impact on ATCO Pipelines' revenue requirement.	(730,000)	(730,000)
Total recovery		**(2,553,000)**	**(512,000)**

Source: Assembled from Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.3, pages 1-2 of 7 and Section 5.1, pages 1-14 of 14.
* New deferral account.
**Modified deferral account.

497. One June 22, 2015, ATCO Pipelines provided an update to its application. However, there were no updates to deferral and reserve accounts.[333]

498. ATCO Pipelines proposes to settle the negative $512,000 balance as a one-time adjustment to ATCO Pipelines' monthly revenue requirement immediately after the Commission approves ATCO Pipelines' compliance filing.[334]

499. The deduction of deferrals for tax purposes deferral account and the UPR deferral account are new deferral accounts proposed by ATCO Pipelines to begin in the test period. As discussed in Section 8.3 below, ATCO Pipelines also proposed a new deferral account for regulatory or legislative changes.

500. ATCO Pipelines is requesting discontinuance of two deferral accounts: the AUC operating fees deferral account and the debt rate deferral account. ATCO Pipelines is proposing

332 Exhibit 3577-X0035, AP-CAPP-2015FEB03-022(a)-(c).
333 Exhibit 3577-X0179, ATCO Pipelines updated application.
334 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 5.1, page 2 of 14.

to include the AUC operating fees in its reserve for hearing costs account starting January 1, 2015. ATCO Pipelines is also proposing to discontinue the debt rate deferral account because it does not meet the criteria for deferral account treatment, specifically materiality of the forecast amount and uncertainty regarding accuracy and ability to forecast the amount.[335] The debt rate deferral account is discussed further in Section 7.2.1. ATCO Pipelines proposed to settle the $20,000 balance in the debt rate deferral account and the $581,000 in the AUC operating fees deferral account in the current application.[336]

501. ATCO Pipelines indicated that it would flow through any cost variances incurred in the test period due to regulatory or legislative changes that were not known or reasonably foreseeable.[337] This is discussed in Section 8.4 below.

502. ATCO Pipelines is requesting approval to remove deferral account balances from the calculation of NWC and to instead accrue monthly carrying costs on all Commission approved deferral accounts, in accordance with Rule 023: *Rules Respecting Payment of Interest*, similar to the currently approved practice for the Salt Caverns working gas deferral account. ATCO Pipelines submitted that this treatment is consistent with the methodology previously approved for ATCO Electric and ATCO Gas.[338] [339] In response to an IR, ATCO Pipelines provided a financial analysis of the proposed methodology, which showed that the deferral account impact under the proposed methodology is less than the revenue requirement impact under the current methodology.[340] ATCO Pipelines asserted this change would protect both ATCO Pipelines and its customers in the event of any significant deferral account balance accumulations not forecast during the test period or changes to the timing of deferral settlements.[341] This is discussed further in Section 5 on NWC.

503. In evidence, the UCA's consultant expressed concern regarding the "proliferation" of deferral accounts in general. In the UCA consultant's view, deferral accounts shift the risk from the shareholder to the customer. Deferral accounts are subject to a prudence review, however, it is difficult for customers to prove imprudence. The UCA's consultant reiterated the criteria for deferral accounts, which are from Decision 2003-100:

1. Materiality of the forecast amount.
2. Uncertainty regarding the accuracy and ability to forecast the amount.
3. Whether or not the factors affecting the forecast are beyond the utility's control.
4. Whether or not the utility is typically at risk with respect to the forecast amount.[342]

[335] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.3, page 3 of 7.
[336] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 5.1, Table 5.1-1.
[337] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.1, page 2 of 2.
[338] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.3, page 3 of 7.
[339] In response to AP-AUC-2015FEB03-030(b) in Exhibit 3577-X0064, ATCO Pipelines referenced 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 page 215, paragraph 1031 for ATCO Gas and Decision 2013-358 at page 212, paragraph 1022, for where the Commission approved the practice of applying carrying charges on deferral balances.
[340] Exhibit 3577-X0064, AP-AUC-2015FEB03-030(a) Attachment.
[341] Exhibit 3577-X0035, AP-CAPP-2015FEB03-030(a).
[342] Decision 2003-100: ATCO Pipelines, 2003/2004 General Rate Application – Phase I, Application 1292783-1, December 2, 2003, pages 115-16.

504. The UCA consultant's evidence made the following recommendation, "Given the shift of risk, the AUC should be extremely cautious in the approval or continuation of any deferral account."[343]

505. In ATCO Pipelines' rebuttal evidence, ATCO Pipelines unequivocally stated that "there is no general proliferation of deferral accounts in the application." ATCO Pipelines' current cost-of-service regulation provides cost certainty to customers and provides ATCO Pipelines with the opportunity to earn a fair return on its investment. It also provides the incentive for ATCO Pipelines to encourage innovation and pursue efficiencies that could, in the short term, result in higher earnings. ATCO Pipelines stated that deferral accounts provide equal protection to customers and utility owners.[344]

Commission findings

506. The Commission does not agree that there is a general proliferation of deferral accounts in this application. Further, the Commission evaluates each request for new and continuation of existing deferral accounts based on the established criteria from Decision 2003-100 of materiality, uncertainty in cost forecasts, factors beyond the utility's control and risk to the utility, while ensuring costs and benefits are symmetrically applied to the utility and customers.[345]

507. The Commission accepts ATCO Pipelines' reasons for continuing the deferral accounts included in the application. The Commission approves the amounts shown in Table 33 above, including the forecast amounts, subject to any true-ups or adjustments arising from directions elsewhere in this decision and subject to the following exceptions discussed in the subsections below:

- reserve for injuries and damages
- reserve for regulatory expenses
- deduction of deferrals for tax purposes deferral account
- regulatory or legislative changes deferral account

508. The Commission finds that ATCO Pipelines' proposal to settle deferral account balances as a one-time adjustment to be reasonable and consistent with past treatment for the deferral accounts approved by the Commission and its predecessors.

8.1 Reserve for injuries and damages

509. ATCO Pipelines forecast an expense level of $213,000 in 2015 and $214,000 in 2016 related to the reserve for injuries and damages (RID) account and forecast claims or payments of $301,000 in each test year. This results in a net balance in the RID of negative $87,000 in 2015 and of $0 in 2016.The forecast claims amount is based on $23,000 in auto aggregate expenses and $278,000 in unspecified incidents based on a five-year historical average of payments from the reserve account. In the application. ATCO Pipelines indicated that the auto aggregate

343 Exhibit 3577-X0224, R. Bell evidence for UCA, Q33/A33, page 26.
344 Exhibit 3577-X0265, ATCO Pipelines rebuttal evidence, pages 23-25.
345 Decision 2000-9 at page 148, stated the following with respect to symmetry: "The Board agrees that the use of deferral accounts should not be for the sole benefit of either the Company or the customers. Rather they should provide a degree of protection to both the Company and the customer from circumstance beyond their control. The Board expects that the individual mechanisms involved in the use of each deferral account should be applied in a consistent and fair manner in both test years and non-test years. Symmetry must exist between costs and benefits for both the Company and its customers."

expenses are ATCO Pipelines' share of self-insurance for auto claims which are less than $100,000, which is the deductible for ATCO's auto insurance policy.[346] ATCO Pipelines used a five-year average to forecast auto aggregate and unspecified incidents expenses in the RID, consistent with the methodology approved in Decision 2003-100.[347]

510. ATCO Pipelines provided the following continuity schedule for the RID, from 2012 forward:

Table 34. Reserve for injuries and damages

	2012 actual	2013 actual	2014 estimate	2015 forecast	2016 forecast
	($000)				
Opening balance	(302)	420	279	(175)	(87)
Forecast expense		(200)	(200)	(213)	(214)
Deferral settlement, per Decision 2013-430			(281)		
Payments					
Auto Aggregate	19	17	21	23	23
Bittern Lake	498	3	6		
Surface Rights Board Claim (Poole Farms)	205	39			
Unspecified incidents¹	___	___	___	278	278
	722	59	27	301	301
Closing balance	420	279	(175)	(87)	-

Note 1: Historic five-year average from 2010-2014.
Source: Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.7, Table 4.2.7-1.

511. ATCO Pipelines indicated that any incident that is self-insured is chargeable against the reserve account.[348]

512. In response to an IR, ATCO Pipelines submitted that, while there was a project that resulted from the 2013 flood where ATCO Pipelines replaced the 323 mm Mainline South at Sheep River, it was not included in the RID. ATCO Pipelines stated that this was consistent with ATCO Pipelines' past practice, was Commission approved regulatory treatment and was in accordance with the Uniform Classification of Account for Natural Gas Utilities. The capital cost of the project was $2,004,000, which was capitalized by ATCO Pipelines.[349]

513. In response to an IR, ATCO Pipelines indicated that a surface rights claim included in the RID in 2012 and 2013 related to a landowner's allegation that ATCO Pipelines' pipeline was blocking subsurface water flow, causing it to back-up and flood the property. In ATCO Pipelines' view, this type of expense is appropriately charged against the reserve.[350]

514. In argument, CAPP recommended that legal costs associated with the Surface Rights Board claim be removed from the RID as they are misclassified as injuries and damages. Further, these expenses inflate ATCO Pipelines' expenses accrued during the test period.

[346] Exhibit 3577-X0293, AP-AUC-2015FEB03-093(a).
[347] Exhibit 3577-X0035, AP-CAPP-2015FEB03-019(a).
[348] Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.7, pages 1-2 of 2.
[349] Exhibit 3577-X0283, AP-UCA-2015FEB03-062(b)-(c).
[350] Exhibit 3577-X0033, AP-CCA-2015FEB03-009(e) Attachment.

515. CAPP also argued that ATCO Pipelines' forecast of the deferral account is inconsistent with past Commission decisions, namely Decision 2003-100 which states: "... The Board is of the opinion that a more reasonable claim level would be two major incidents every ten years, equivalent to one every five years ..." ATCO Pipelines uses a five-year average to calculate the forecast expense. CAPP recommended that ATCO Pipelines be directed to recalculate the forecast expenses using a single incident during the last five years.

516. CAPP also recommended that the outstanding balance of $175,000 be settled given that the amount is not subject to ongoing proceedings or thresholds. In CAPP's view, ATCO Pipelines has not provided a rationale for why this deferral balance should not be settled.[351]

517. In reply argument, ATCO Pipelines submitted that the legal costs were incurred with respect to a Surface Rights Board claim and excluding them would misrepresent the costs associated with that incident. Additionally, these payments were previously approved for inclusion in the RID in the 2013-2014 GRA.

518. Additionally, ATCO Pipelines argued that a five-year average is reasonable and not dissimilar to the approach of other utilities for calculating RID expenses. ATCO Pipelines noted that the Commission has approved the use of a five-year average for other regulatory uses, such as for calculating the vacancy rate.

519. Finally, ATCO Pipelines argued that CAPP's proposal that the account be settled is inconsistent with the traditional treatment of this account. ATCO Pipelines argued that the rollover of the RID balance is reasonable and consistent with the methodology applied by other utilities. It is not practical or efficient to continually settle an account. The proper methodology for reserve accounts is to roll over balances and aim to zero the account out, on an ongoing basis.[352]

Commission findings

520. The Commission has reviewed ATCO Pipelines' proposed expenses and settlements for the RID and has reviewed past decisions related to the RID. In Decision 2003-100, the board stated:

> The Board notes that there are two aspects to the RID, the level of the annual charge to the reserve, and the target level of the reserve fund.
> …
> With respect to the annual charge to the reserve, the Board notes that the estimate provided by ATCO Pipelines assumes that there will be two major incidents every four years, equivalent to one incident every two years. …Absent other evidence, the Board is of the opinion that a more reasonable claims level would be two major incidents every ten years, equivalent to one every five years.
> …
> The Board is of the view that it is reasonable to allow the reserve to accumulate enough funds to cover one major claim, or $1,000,000 every five years. If there is more than one major claim in a five-year period, the reserve fund could experience a deficit. However, the Board is not satisfied that there is a pressing need to bring the reserve to that level within the test period.[353]

351 Exhibit 3577-X0326, CAPP argument, pages 13-14.
352 Exhibit 3577-X0347, ATCO Pipelines reply argument, pages 15-16.
353 Decision 2003-100, page 98.

521. In the context of this application, the Commission recognizes that its predecessor, the Alberta Energy and Utilities Board, directed ATCO Pipelines to estimate the annual charge to the reserve fund based on one incident every five years. However, given the submissions of interveners, the Commission is cognizant that the environment in which that direction was made has changed and may not be the optimum methodology going-forward. However, consistent with past findings that a five-year average is optimal for estimates[354] when specific costs are not available, the Commission finds it reasonable for ATCO Pipelines to use a five-year average to estimate unspecified incidents in the RID. In its next GRA, ATCO Pipelines is directed to provide an analysis of whether the five-year average remains the optimal methodology for the RID.

522. Given the board's previous view that accumulating funds are sufficient to cover incidents related to the RID, the Commission finds that it is not necessary for ATCO Pipelines to settle the account balance of $87,000 in 2015.

523. With regard to the inclusion of legal fees and the Bittern Lake Surface Rights Board claim expenses in the RID, in Decision 2013-430, the Commission stated the following:

> 342. … Interveners did not question the quantum of the Bittern Lake internal reclamation costs of $498,000 and offered no alternative means to recover these costs. Absent any evidence that shows an alternative approach to recover these costs, the Commission accepts ATCO Pipelines' explanation that the Bittern Lake reclamation costs of $498,000 are self-insured costs which should be included in ATCO Pipelines' RID account. ATCO Pipelines' RID expenses forecast for the 2013 and 2014 test years are approved as filed.[355]

524. Accordingly, the Commission considers that the Bittern Lake claim with the Surface Rights Board has already been approved for inclusion in the RID and therefore will not direct ATCO Pipelines to remove the associated legal fees from the RID. For future costs that may result from Surface Rights Board claims, or other regulatory proceedings that may result in legal or other costs, ATCO Pipelines is directed to identify and explain whether these costs should appropriately be included in the RID, or whether the costs are more appropriately included in a different, or separate, deferral account.

525. For the above reasons, ATCO Pipelines' application with respect to the RID is approved, as filed.

8.2 Reserve for regulatory expenses

526. ATCO Pipelines applied to combine the reporting and recovery of AUC operating fees and hearing costs into a single reserve account, effective January 1, 2015, similar to the treatment of these expenses for ATCO Electric and ATCO Gas.

[354] For example, in Decision 3539-D01-2015, the Commission directed EDTI to use a five-year average to estimate life cycle project costs when the project scope is not defined. Also, in Decision 2013-430, the Commission directed ATCO Pipelines to use a five-year average for calculating vacancy rates as it is more reflective of past experience.

[355] Decision 2013-430, at paragraph 342.

527. ATCO Pipelines proposed to settle the balance in the AUC operating fees deferral account but to leave a balance in the reserve for hearing costs, which will be carried over in the new reserve for regulatory expenses.[356] ATCO Pipelines proposed that the new regulatory expense reserve account will be treated the same as the former hearing cost reserve account, namely, that the balance is incorporated into the determination of the forecast expense recovery for the test period.[357]

528. ATCO Pipelines provided the following continuity schedule for the reserve for regulatory expenses, from 2013 forward:

Table 35. Reserve for regulatory expenses

	2013 actual	2014 actual	2015 forecast	2016 forecast
	($000)			
Opening balance	(938)	(1,682)	1,314	2,152
Expense accrual				
AUC operating fees	(2,500)	(2,500)	(2,900)	(2,900)
Hearing costs	(1,150)	(1,150)	(1,281)	(1,281)
	(3,650)	(3,650)	(4,181)	(4,181)
Deferral settlement	-	842[1]	(581)[2]	-
Payments				
AUC operating fees	2,681	2,900	2,900	2,900
Hearing costs	225	2,904	2,700	577
	2,906	5,804	5,600	3,477
Closing balance	(1,682)	1,314	2,152	1,448

Note 1: Hearing cost deferral settlement, Decision 2013-430.
Note 2: Request AUC admin fees deferral account settlement, see Section 5.1.
Source: Exhibit 3577-X0314, undertaking, updated Table 4.2.6-1, page 1.

529. ATCO Pipelines forecast an expense of $4,181,000 in each test year and indicated that any accumulated reserve balance at the end of 2016 will be brought forward and used in the determination of the expense forecast in the next GRA application.[358] ATCO Pipelines has set expenses, payments and settlements in such a way that there will be a balance of zero at the end of the test period.[359]

530. Forecast payments for the test period include AUC operating fees, consistent with 2014 levels, in addition to ATCO Pipelines' estimate of approved hearing cost claims.[360] ATCO Pipelines' estimates for hearing costs are based on historic spend for similar proceedings.[361]

356 See "balance to settle" in Exhibit 0007.00.ATCOPIPE-3577, the application, in tables 5.1-10 and 5.1-11 on PDF pages 173-174. Also, see response to AP-CAPP-2015FEB03-027(e) in Exhibit 3577-X0035 at PDF page 158.

357 Exhibit 3577-X0035, AP-CAPP-2015FEB03-027(e).

358 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.6, page 1 of 1.

359 Exhibit 3577-X0035, AP-CAPP-2015FEB03-027(g).

360 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.6, page 1 of 1.

361 Exhibit 3577-X0033, AP-CCA-2015FEB03-014(a).

531. In response to an IR, ATCO Pipelines indicated that it had provided the individual components of each category of the reserve account and the deferral account. In its view, incorporating the AUC operating fees deferral account into the reserve for hearing costs will maintain costs transparency but eliminate the need for administration of one deferral account (for example: the AUC operating fees deferral account).[362]

532. CAPP argued that ATCO Pipelines failed to provide a rationale for not settling its reserve for hearing costs in this application. CAPP recommended that ATCO Pipelines be required to settle the outstanding balances in both accounts, in a consistent manner.[363]

533. In reply argument, ATCO Pipelines submitted that the existing process for settling balances should be maintained in the test period, while it transitioned to a combined deferral account. ATCO Pipelines noted that going forward, regulatory expenses and the AUC operating fees will be combined and settled in a consistent manner.[364]

Commission findings

534. The Commission considers that there is sufficient explanation on the record regarding the benefits of combining the AUC operating fees deferral account and hearing costs reserve account. Further, the proposal to combine the accounts would appear to reduce the number of deferral accounts that ATCO Pipelines is required to manage, and therefore, would create regulatory efficiency. The Commission finds that combining the two accounts is not expected to result in harm to the utility or to the public. The combining of the two deferral accounts into a single deferral account is approved. To ensure transparency and to allow for the continued identification of AUC operating costs within the account, ATCO Pipelines is directed to record separately, AUC operating costs and hearing costs, within the combined deferral account.

535. With regard to CAPP's recommendation that the hearing costs be settled simultaneously with the settling of AUC operating fees when combining the accounts, the Commission finds that this would assist in the tracking of costs included in the combined reserve account going-forward. The Commission therefore directs ATCO Pipelines to include the settlement of the AUC operating fees and hearing costs in its compliance filing, to recalculate the proposed settlement amount and to advise if there is any change to the proposed one-time adjustment for the settlement balance from the amount proposed in the application.

8.3 Deduction of deferrals for tax purposes deferral account

536. ATCO Pipelines included an adjustment to utility tax expense which reflects the deferred taxes payable or refundable as a result of changes in the regulatory deferral account balances. The collection of deferred taxes on regulatory deferral account balances was put in place to ensure both customers and ATCO Pipelines were kept whole from the tax impact resulting from the timing of deferral settlements.[365]

537. ATCO Pipelines applied to discontinue the practice of collecting or refunding deferred taxes on deferral balances and to replace it with a deferral account for addback or deduction of

[362] Exhibit 3577-X0035, AP-CAPP-2015FEB03-027(c).
[363] Exhibit 3577-X0326, CAPP argument, page 13.
[364] Exhibit 3577-X0347, ATCO Pipelines reply argument, page 15.
[365] Exhibit 3577-X0179, ATCO Pipelines updated application, Section 8.1, page 6 of 8.

deferrals for income taxes.[366] ATCO Pipelines indicated that the proposed methodology is consistent with the treatment approved by the Commission for ATCO Electric.[367]

538. There are no deferrals included in the application for the test years as the amounts in the application form the basis for calculating the deferral amounts. There will likely be actual deferral amounts in the test years and therefore there will be either a tax deduction or addback on ATCO Pipelines corporate tax returns for those years, which ATCO Pipelines has proposed be treated as deferrals. ATCO Pipelines has included placeholders for a tax deduction of $2,713,000 in 2015 and an addback of $591,000 in 2016. Once the actual deductions or addbacks for the test years are determined, ATCO Pipelines will calculate the income tax impact by multiplying the difference between the actuals and placeholders by the appropriate income tax rates for the year in question. This income tax impact will then be grossed up for the income taxes and the amounts will either be refunded to or collected from customers.[368]

539. To transition to the new methodology, ATCO Pipelines applied to settle the accumulated deferred tax liability/receivable as at December 31, 2014, as a collection of $591,000.[369]

540. ATCO Pipelines provided the following schedule for the deferred taxes on accumulated deferral balances:

Table 36. Deferred taxes on accumulated deferral balances as at December 31, 2014

	2014 actual	Balance to settle
	($000)	
Deferred liability[1]	1,722	
Combined federal/provincial tax rate	25%	
Deferred tax balance (a)	443	
Gross-up for tax[2]	591	591

Note 1: From Table 4.5.-2.3 line 26 in the application, Exhibit 0007.00.ATCOPIPE-3577, Section 4.5, page 6 of 6.
Note 2: Gross-up = (a) /(1-tax rate).
Source: Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 5.1, page 14 of 14.

541. On July 30, 2015, the Commission issued Bulletin 2015-13[370] which initiated a generic proceeding to address the income tax methodologies used in revenue requirement calculations for regulated utilities in Alberta. The generic proceeding was assigned proceeding number 20687 and is currently ongoing. The generic proceeding is to include, among other issues, consideration of new methods or treatments for income tax identified by parties, such as method or treatments for income tax used in other jurisdictions, and whether utilities should be assumed to claim the maximum allowable deductions for income tax purposes in determining the income tax amount to be included in the revenue requirement.[371]

542. The deduction of deferrals for tax purposes was not addressed in intervener arguments.

366 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 5.1, page 14 of 14.
367 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 8.1, page 7 of 8.
368 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 8.1, page 7 of 8.
369 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 5.1, page 14 of 14.
370 Bulletin 2015-13, Initiating a generic proceeding to address the income tax methodologies used in revenue requirement calculations for regulated utilities in Alberta, July 30, 2015.
371 Bulletin 2015-13, scope items 1(i) and 1(v).

Commission findings

543. The Commission considers that given the ongoing generic proceeding to address tax methodologies for regulated utilities, it is premature to approve ATCO Pipelines' proposal for a deduction of deferrals for tax purposes deferral account. Therefore, the Commission directs ATCO Pipelines to continue its practice of collecting or refunding deferred taxes on deferral balances for the test period.

544. The Commission approves a settlement balance of $591,000 for deferred taxes on accumulated deferral balances as at December 31, 2014. The Commission also approves ATCO Pipelines' placeholders for a 2015 tax deduction and a 2016 tax addback to be used in the calculation of deferred taxes for the purposes of determining its revenue requirement.

8.4 Regulatory or legislative changes deferral account

545. In the application, ATCO Pipelines stated the following, "Any cost variances due to regulatory or legislative changes that were not known of or otherwise reasonably foreseeable to be incurred during the test period shall be flowed through to customers."[372] No other mention is made of this item in the application nor in the updated application filed on June 22, 2015.[373]

546. In response to information requests, ATCO Pipelines clarified that it is applying for a new deferral account for cost increases or reductions that are the direct result of regulatory or legislative changes not contemplated in this application.[374] The deferral account is intended to provide protection to ATCO Pipelines and its customers from the potential impact of changes in regulation or legislation that may arise during the test period. ATCO Pipelines indicated that regulatory and legislative changes may include new tax measures or compliance costs associated with new or amended regulatory requirements not anticipated in the application.[375]

547. ATCO Pipelines does not consider that this deferral account request warrants any change to its approved ROE or equity thickness.[376]

548. In argument, CAPP recommended that ATCO Pipelines' request for this deferral account be denied for the test period. CAPP recommended that the impact of this account be assessed when settling ATCO Pipelines' next ROE. CAPP disagreed with ATCO Pipelines' statement that this new deferral account would not warrant a change in the approved ROE and equity thickness because it fundamentally changes ATCO Pipelines' risk.[377] In its reply argument, the UCA supported CAPP recommendations. The UCA noted that adopting this deferral account would reduce the risk for which ATCO Pipelines is currently compensated in its approved ROE and deemed capital structure and could result in overcompensation for ATCO Pipelines.[378]

549. In reply argument, ATCO Pipelines noted that CAPP did not oppose the deferral account but rather requested that it be considered in conjunction with ATCO Pipelines' next ROE proceeding. ATCO Pipelines reiterated that "… this account will not change ATCO Pipelines'

372 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 1.3, page 3 of 7.
373 Exhibit 3577-X0179, ATCO Pipelines updated application.
374 Exhibit 3577-X0033, AP-CCA-2015FEB03-004(a)-(d).
375 Exhibit 3577-X0172, AP-CCA-2015MAY21-044(c).
376 Exhibit 3577-X0172, AP-CCA-2015MAY21-043(a)-(b).
377 Exhibit 3577-X0326, CAPP argument, page 18.
378 Exhibit 3577-X0346, UCA reply argument, page 18.

business risk as it operates symmetrically. Regulatory or legislative changes may impact costs negatively or positively."[379]

Commission findings

550. In Decision 2013-430, the Commission, citing Decision 2003-100, which was referenced above in Section 4.5.1.1 (paragraphs 151-152), provided the criteria to be considered for whether deferral account treatment should be used.

551. There is no evidence on the record of this proceeding with regard to a forecast amount that is expected to result from the impact of regulatory and legislative changes. Nor is there any evidence which addresses uncertainty regarding the accuracy and ability to forecast the amount with respect to income tax or other legislative changes. The Commission considers that, without this information, it cannot make a determination on whether the requested deferral account meets the first two criteria.

552. The Commission considers that regulatory and legislative changes in many cases would be beyond the utility's direct control however, the Commission notes that such changes are not typically made without consultation with stakeholders, including ATCO Pipelines. Nor is the risk of regulatory or legislative changes new to ATCO Pipelines, as a regulated utility, and these changes may be addressed as they occur. Regulatory and legislative changes are typically announced prior to implementation and typically take time to be implemented. This generally allows for utilities to take steps to mitigate or plan for impacts from the regulatory and legislative changes.

553. For these reasons, the Commission finds that ATCO Pipelines has not sufficiently demonstrated the need for a regulatory and legislative changes deferral account. Accordingly, ATCO Pipelines' request is denied.

8.5 Placeholders

554. ATCO Pipelines has included a number of placeholders in its application to account for proceedings currently before the Commission. In particular, ATCO Pipelines included a placeholder of 37 per cent equity and a placeholder for a return on equity of 8.3 per cent for 2016, pending the Commission's determination in Proceeding 20622.[380] These placeholders are discussed in Section 7.1 of this decision.

555. ATCO Pipelines submitted that it was awaiting the outcome of the Supreme Court of Canada's hearing of the ATCO Utilities' (ATCO Electric, ATCO Gas, and ATCO Pipelines) appeal of the Commission's 2011 pension decision,[381] and as such requested placeholder treatment for its disallowed pension related (COLA) costs.[382] In the application, ATCO Pipelines applied for a disallowed pension related (COLA) costs placeholder of zero for 2015 and 2016.[383]

556. On September 25, 2015, the Supreme Court of Canada rendered Decision 2015 SCC 45, which denied ATCO Gas and Pipelines' and ATCO Electric's recovery of pension related costs. Decision 2015 SCC 45 found "that it was not unreasonable for the Commission to direct the

379 Exhibit 3577-X0347, ATCO Pipelines reply argument, page 18.
380 Proceeding 20622, 2016 GCOC.
381 2011 Pension Common Matters.
382 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 1.3, page 5 of 7.
383 Exhibit 0007.00.ATCOPIPE-3577, ATCO Pipelines application, Section 4.2.11, page 1 of 2.

ATCO Utilities to reduce their pension costs incorporated into revenue requirements by restricting annual COLA to 50 percent of CPI (up to a maximum of 3 percent) for current service costs from 2012 onward and for special payments addressing the unfunded liability from 2013 onward."[384]

557. ATCO Pipelines indicated that the ATCO Utilities appeal may also address the issue of recovery of costs in general, and therefore, ATCO Pipelines was requesting placeholder treatment for other currently disallowed operating costs.[385]

558. A summary of ATCO Pipelines' placeholder requests are summarized in the table below:

Table 37. Summary of placeholder requests in included in the June 22, 2015 application update

	2015 forecast	2016 forecast
	($000)	
Return		
Equity thickness (%)		37%
ROE (%)		8.3%
Pension costs		
Defined benefit pension costs/special payments	3,377	3,377
Less 50% COLA reduction	(818)	(818)
Net	2,559	2,559
NGTL integration costs		
Plant in service	0	0
Accumulated depreciation	0	0
Contributions in aid of construction	0	0
Depreciation expense	0	0
Income taxes	0	0
Non-monetary adjustment	0	0
Monetary adjustments	0	0
UPR		
Capital expenditures	198,987	138,000
Growth capital		
Inland loop project	8,250	46,625
Other major projects	0	0
Growth – general	2,125	2,125
Income taxes		
Deduction/(addbacks) of deferrals for tax purposes	2,713	(571)
Reserves		
Regulatory expenses	4,181	4,181
Injuries and damages	213	214

384 *ATCO Gas and Pipelines Ltd. v. Alberta* (Utilities Commission), 2015 SCC 45, paragraph 65.
385 Exhibit 3577-X0179, ATCO Pipelines updated application, Section 1.3, pages 4-5 of 7.

	2015 forecast	2016 forecast
	($000)	
Other placeholder requests		
Disallowed COLA costs	818	818
MTIP/LTIP	711	632
Donations and sponsorships	418	430
Corporate costs	80	81

559. ATCO Pipelines clarified that the disallowed pension cost placeholders are part of the total disallowances deducted from ATCO Pipelines' revenue requirement for 2015-2016 which is separate from, but consistent with, the placeholders for the 2013 and 2014 pension costs.[386]

560. The Commission issued Decision 2954-D01-2015 on January 15, 2015 regarding the ATCO Utilities' 2013 pension application. The Supreme Court of Canada released its decision on the ATCO Utilities' appeal on September 25, 2015. As a result of these decisions, ATCO Pipelines clarified that the applied for placeholders are no longer required, with the exception of the 2014 pension funding and the placeholder required for ROE and equity thickness, pending the outcome of the 2016 GCOC proceeding.[387]

561. In argument, CAPP recommended that the placeholders for disallowed operating costs be removed. CAPP argued that the costs related to MTIP/LTIP, donations and sponsorships and corporate costs were not subject to the Supreme Court of Canada appeal and were previously disallowed. Further, the Supreme Court of Canada did not rule in favour of the ATCO companies in its decision and therefore the placeholders should be disallowed. CAPP noted that, in the oral hearing, the ATCO Pipelines witness stated that the placeholders are no longer required, with the exception of the placeholder for pensions, which is required because of the ongoing 2014 pension costs proceeding.[388]

562. In argument, the CCA submitted that no placeholders should be allowed for previously disallowed items. The CCA further stated that placeholders undermine regulatory policy developed over the course of various proceedings. Accordingly, the CCA recommend that the Commission deny ATCO Pipelines' request for placeholder amounts on disallowed items.[389]

563. In reply argument, ATCO Pipelines agreed with CAPP and the CCA that the disallowed operating costs placeholders are no longer required.[390]

Commission findings

564. The placeholders requested in ATCO Pipelines' application include:

- exchange of asset costs related to the NGTL integration, which will be captured in the NGTL integration deferral account
- capital project costs which will be captured in the capital growth deferral account
- UPR capital expenditures which will be captured in the UPR deferral account
- income tax deductions/addbacks, which will be captured in the deductions of deferrals for income tax purposes deferral account

386 Exhibit 3577-X0035, AP-CAPP-2015FEB03-029(a).
387 Exhibit 3577-X0328, ATCO Pipelines argument, pages 98-99.
388 Exhibit 3577-X0326, CAPP argument, pages 16-17.
389 Exhibit 3577-X0331, CCA argument, page 29.
390 Exhibit 3577-X0347, ATCO Pipelines reply argument, pages 17 and 51.

- injuries and damages which will be captured in reserve accounts
- disallowed COLA costs
- MTIP/LTIP
- donations and sponsorships
- corporate costs

565. Findings for the pension costs placeholders are addressed in Section 6.2.4, findings for the NGTL integration costs are addressed in sections 6 and 8, findings for the UPR capital expenditures placeholders are addressed in Section 4.5.1.1, findings for the growth capital inland looping project placeholder are addressed in Section 4.5.2, findings for the other NGTL directed growth capital projects are addressed in Section 8, findings for income taxes deductions/addbacks of deferrals for tax purposes are addressed in Section 8.3, findings for regulatory expenses are addressed in Section 8.2 and findings for reserves for injuries and damages are addressed in Section 8.1.

566. As the Supreme Court of Canada has rendered its decision on ATCO Pipelines' 2011 pension decision, the Commission agrees with ATCO Pipelines that a placeholder is no longer necessary for the 2015 and 2016 disallowed COLA costs. The placeholders for disallowed MTIP/LTIP, donations and sponsorships, and corporate costs are similarly not required. The Commission directs ATCO Pipelines to remove all of these placeholders in its compliance filing.

9 Depreciation

567. In its application, ATCO Pipelines submitted a technical update to its December 31, 2011 depreciation study, which had been submitted by ATCO Pipelines in its 2013-2014 GRA.

568. The technical update determined updated depreciation rates and amortization of reserve differences amounts for the 2015 and 2016 test years based on plant in service balances, as of December 31, 2013 (the balances, of which, were adjusted for pending retirements[391] to be processed in 2014). The impact of the technical update, based on December 31, 2013 plant in service balances, was an increase in depreciation expense of $1.39 million.[392]

569. ATCO Pipelines stated that a technical update assists in ensuring that depreciation rates and amortization of reserve differences amounts are at an optimal level until the completion of the next full depreciation study. This is achieved by applying the currently approved depreciation parameters to the most recent actual plant in service information to develop the most current and relevant depreciation rates for the test years. The amortization of reserve differences amounts are also recalculated during the course of a technical update.

570. ATCO Pipelines' technical update was prepared by Mr. Earl Robinson of AUS Consultants using the same methodology and depreciation parameters (service life, Iowa curve and net salvage per cents) as approved in Decision 2013-430. The updated depreciation rates and amortization of reserve differences amounts formed the basis for ATCO Pipelines

391 Exhibit 0003.00.ATCOPIPE-3577, 8.2 Attachment – Depreciation Study, page 3 stated that pending retirements were related to investment for which the age exceeded the proposed average service life's maximum life as well as normal ongoing retirements or transfer adjustments.

392 Exhibit 3577-X0294, AP-AUC-2015FEB03-104(c), Schedule 6, 3 of 3.

forecast depreciation expense calculations for the test years. Net depreciation expense was forecast in the amount of $57.65 million in 2015 and $67.26 million in 2016.[393]

571. Year-over-year increases with respect to net depreciation expense are presented in the following table:

Table 38. Year-over-year comparison of net depreciation expense

	2013 actual	2014 estimate	2015 forecast	2016 forecast
	($ million)			
Net depreciation expense using approved depreciation parameters (2015 and 2016 reflect results of the technical update)	47.081	51.297	57.650	67.261
Increase/(decrease) in net depreciation expense year-over-year		**4.216**	**6.353**	**9.611**

Source: Exhibit 3577-X0182, Financial schedules update, Table 4.4-1.

572. ATCO Pipelines attributed the year-over-year increases primarily to increasing pipeline system capital investments.

573. In addition to seeking approval of the depreciation rates and amortization of reserve differences amounts arising from its technical update, ATCO Pipelines requested that the Commission approve the componentization of wells inspection into a new asset subaccount (Account 45301 – wells inspection) in 2015 with an amortization period of 10 years. ATCO Pipelines clarified that despite Decision 2013-064,[394] in paragraph 101, wherein the Commission had approved the proposed capitalization accounting treatment of wells inspections, ATCO Pipelines had inadvertently not requested the further componentization by subaccount, of wells inspection at that time.[395] The proposed amortization period of 10 years was based on achieving consistency with "the Canadian Standards Association for Dry Gas Storage operators, subsection 10.2.5.2-Dry gas storage caverns [which stated that] at 'every ten years, operators of dry storage caverns shall (a) carry out an integrity inspection workover in accordance with Clause 10.2.5.1; or (b) conduct an integrity inspection workover on the storage caverns and wells…' "[396]

574. ATCO Pipelines also requested approval of a new subaccount for field laptop assets (Account 48911 – field laptops) with an amortization period of four years. The amortization period was based on consultation with Mr. Robinson who examined the industry standards along with considerations of the laptop units. A further consideration was that these assets would be replaced at intervals of four years to address technical advancements and physical condition.

575. The two proposed subaccounts would be included in ATCO Pipelines' next full depreciation study, which was anticipated to be filed at the time of its next GRA application.[397] [398]

[393] Exhibit 3577-X0182, Financial schedules update, Table 4.4-1.
[394] Decision 2013-064: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., 2012 Final Revenue Requirement Application, Proceeding 2041, Application 1608689-1, February 28, 2013.
[395] Exhibit 3577-X0179, ATCO Pipelines updated application, Section 4.4, page 4 of 6.
[396] Exhibit 0003.00.ATCOPIPE-3577, 8.2 Attachment – Depreciation Study, page 3.
[397] Exhibit 3577-X0179, ATCO Pipelines updated application, Section 4.4, page 5 of 6.
[398] Transcript, Volume 3, pages 635-636.

576. The impact of ATCO Pipelines subaccount proposals, in combination with updated depreciation rates and amortization of reserve differences amounts resulting from the technical update, are presented in the following table:

Table 39. Impact of ATCO Pipelines technical update on net depreciation expense

	2015 forecast	2016 forecast
	($ million)	
Net depreciation expense using proposed rates (output from technical update)	57.650	67.261
Net depreciation expense using approved rates	56.560	66.135
Impact of technical update on net depreciation expense: increase/(decrease)	**1.090**	**1.126**

Source: Exhibit 3577-X0182, Financial schedules update, Table 4.4-2.

577. ATCO Pipelines stated that it had also addressed any errors or discrepancies raised in information requests in its June 22, 2015, application update.

578. ATCO Pipelines concluded it had provided the necessary support for its depreciation technical update and no other parties provided evidence against ATCO Pipelines' depreciation-related requests. Accordingly, ATCO Pipelines submitted that the Commission should approve its proposed updated straight line, equal life group depreciation rates, amortization rates, amortization of reserve differences amounts, the componentization of well inspection costs and field laptops (with corresponding amortization periods of ten and four years respectively).[399]

Commission findings

579. The Commission agrees with ATCO Pipelines that parties intervening in this proceeding did not file evidence or identify any issues with respect to the depreciation expense determined by ATCO Pipelines for the 2015 and 2016 test years. The Commission accepts the evidence and submissions of ATCO Pipelines with respect to depreciation expense in the test period because the basis for its calculation is consistent with the depreciation parameters approved in the prior depreciation study and the results of the technical update. The creation of the two subaccounts is reasonable given ATCO Pipelines' explanations of why Account 45301 – wells inspection is required, and because of the recommended change in the amortization period of laptops a new subaccount is needed, Account 48911 – field laptops.

580. The Commission also agrees that ATCO Pipelines' updated forecast depreciation rates and amortization of reserve differences amounts for 2015 and 2016 are reasonable and supported by the evidence on the record, and are therefore approved, as filed. The Commission, however, directs ATCO Pipelines, in the compliance filing to this decision, to update the depreciation expense forecasts to reflect the applicable directions included in this decision, most notably the directions with respect to the capital projects.

10 Compliance with Commission directions

581. The Commission has reviewed Section 6.1 of the application as well as the attachments to Section 6.1, and is satisfied with ATCO Pipelines' explanation of the status of compliance

[399] Exhibit 3577-X0328, ATCO Pipelines argument, paragraphs 80, 190 and 192.

with previous directions of the Commission, the identification of any related proceeding wherein ATCO Pipelines complied with past directions and its progress with complying with any ongoing directions.

11 Order

582. It is hereby ordered that:

(1) ATCO Pipelines is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than April 14, 2016.

Dated on February 29, 2016.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Panel Chair

(original signed by)

Bill Lyttle
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
ATCO Pipelines Bennett Jones LLP
Encana Corporation
Cenovus Energy Inc.
Consumers' Coalition of Alberta (CCA)
NOVA Gas Transmission Ltd. (NGTL)
The City of Calgary McLennan Ross Barristers & Solicitors
The Office of the Utilities Consumer Advocate (UCA) Bull, Housser &Tupper LLP
Canadian Association of Petroleum Producers (CAPP)
Nexen Energy ULC

Alberta Utilities Commission Commission panel N. Jamieson, Panel Chair B. Lyttle, Commission Member Commission staff A. Sabo (Commission counsel) M. McJannet R. Armstrong, P.Eng. M. Kopp-van Egteren S. Karim B. Yanchula L. Mullen

Appendix 2 – Oral hearing – registered appearances

Name of organization (abbreviation) Name of counsel or representative	Witnesses
ATCO Pipelines R. Gretener T. Myers	L. Radke J. Sharpe B. Hahn G. Schmidt B. Shkrobot S. Mah K. Yung (Mercer Canada Limited)
Canadian Association of Petroleum Producers (CPP) N. Schultz	
Consumers' Coalition of Alberta (CCA) J. Wachowich	
The City of Calgary D. Evanchuk	H. Johnson S. Stephens
The Office of the Utilities Consumer Advocate (UCA) M. Keen A. Stainer	R. Bell

Alberta Utilities Commission Commission panel N. Jamieson, Panel Chair B. Lyttle, Commission Member Commission staff A. Sabo (Commission counsel) M. McJannet R. Armstrong, P.Eng. M. Kopp-van Egteren B. Yanchula	

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.

5. The Commission notes that the Inland Looping project has been revised into two discrete projects, the Inland Loop project consisting of 18 km of pipeline and the Pembina Loop project. Given ATCO Pipelines' explanation of the change in scope of the Inland Loop project, the Commission approves the inclusion of the Inland Looping project in the NGTL directed growth capital deferral account. The Commission has reviewed the evidence with respect to the need for the project and the related forecast capital costs (or capital expenditures) and is satisfied that they are reasonable. Therefore, the Commission approves the need for the project and related forecast. As a result of the change in scope of this project, ATCO Pipelines is directed in its compliance filing to reflect the updated forecast of $40 million in the NGTL deferral account and confirm that the Inland Looping and Pembina Loop project pipeline are still expected to be in service by November 2016. .... Paragraph 164

6. For these reasons, the Commission reduces the forecast estimate by the average cost to upgrade eight stations, which results in a disallowance of $180,444 (i.e. $1,015,000 / 45 x 8 = $180,444) split equally between both test years. The Commission directs ATCO Pipelines to reflect this reduction to its capital expenditures for the H2S warning lights at its stations, in the compliance filing to this decision. .... Paragraph 206

7. Therefore, ATCO Pipelines is directed to file an update to the Edmonton office expansion business case in the compliance filing to this decision, and the update of FTE requirements. ATCO Pipelines is directed to maintain the capital estimate of $8.5 million for the office expansion as a placeholder. .... Paragraph 216

8. Accordingly, the costs for the above IT projects are denied. ATCO Pipelines is directed to remove the capital expenditures totaling $4.95 million from the test years. .... Paragraph 241

9. The Commission considers that the use of the mid-year convention is an accepted practice for treating capital additions and considers any inclusion of capital additions in NWC would require a more comprehensive review of the applicability of the mid-year convention for capital related items. Therefore, ATCO Pipelines is directed to further explain, in its next GRA, why its capital additions lag the mid-year convention and whether on a go-forward basis it is, or is not, appropriate to include capital additions or other capital related items in NWC. Subject to any other findings included in this decision, the NWC forecasts for the test years are approved, as filed. .... Paragraph 272

10. As discussed in Section 6.3.1 below, the expenses for the gap analysis for implementation of ISO 55001 were denied. ATCO Pipelines is therefore directed to remove any O&M labour expense associated with this project in the compliance filing. All other O&M labour expenses will be discussed in the sections below. .... Paragraph 291

11. Accordingly, the Commission approves a 3.0 per cent out-of-scope salary escalation factor for both 2015 and 2016. The Commission considers that the 3.0 per cent should be inclusive of all salary increases and promotional increases. The Commission directs ATCO Pipelines to reflect the 3.0 per cent out-of-scope escalation factor in its compliance filing to this decision. .... Paragraph 325

12. Given the Commission's November 27, 2015 and December 10, 2015 rulings on the matter of placeholder treatment for FTEs and their related costs, the Commission continues to direct ATCO Pipelines to clearly identify the impact of announced employee reductions on forecast FTEs and revenue requirement for the test years. The FTE costs will continue to be treated as a placeholder until the impact of employee reductions is

assessed in the compliance filing to this decision. The Commission considers that ATCO Pipelines can take into account the arguments and reply arguments of interveners in preparing its compliance filing to this decision with respect to FTEs. .... Paragraph 366

13. The Commission, in factoring the current market conditions that are expected to result in lower supplies costs and the counterbalancing current exchange rate, finds that the recommendation of 1.7 per cent for supplies inflation for 2015 and 2016 is reasonable given the current market conditions and the higher exchange rate affecting supply costs. As a result, the Commission directs ATCO Pipelines to use a supplies inflation factor of 1.7 per cent. .... Paragraph 395

14. Accordingly, the Commission directs ATCO Pipelines to remove the $1.6 million related to the ISO 55001 from revenue requirement during the test years. ATCO Pipelines may choose to provide a proposal for a gap analysis related to ISO 55001 certification in a future GRA. .... Paragraph 410

15. For other O&M labour and supplies costs which include estimates for specific work related to the asset management system projects, such as the costs included in contract services O&M supplies cost category, ATCO Pipelines is directed to recalculate the O&M labour and supplies costs to reflect the denial of the ISO 55001 project costs for the test period. .... Paragraph 411

16. The Commission has reviewed the forecast A&G costs and finds that the forecasts are reasonable given the information provided in tables 25 and 26 above and are approved, subject to the findings above regarding supplies inflation. Consistent with the direction on supplies inflation in Section 6.3, the Commission directs ATCO Pipelines to revise its forecast A&G costs to use the approved 1.7 per cent for supplies inflation, where applicable and to provide a revised Table 25 in its compliance filing to this decision. .... Paragraph 422

17. Additionally, the Commission has denied ATCO Pipelines' forecast costs for the asset management IT capital projects (Hyperion, Maximo Phase 2 and the GIS, PIMS and MMS enhancements), which may have a corresponding impact on IT volumes. The Commission understands that forecast baseline volumes are specified in the Wipro MSA, but for the purposes of this application, directs ATCO Pipelines to submit revised forecast IT volumes in the compliance filing, which take into account the denial of the asset management IT capital projects in this decision and to account for changes in ATCO Pipelines' forecast staffing levels as a result of the recent announcement of employee reductions by the ATCO Group. .... Paragraph 451

18. The Commission further directs ATCO Pipelines to file all of its forecast IT volume data for the test period and actual volumes from the previous test period, in all future GRAs. .... Paragraph 452

19. In a letter dated October 28, 2015, the Commission determined that the issue of licence fees would be heard in a common licence fee proceeding with ATCO Electric in order to allow the Commission to address the licence fee issues related to both the ATCO Electric GTA and the ATCO Pipelines GRA. This matter is currently being heard in Proceeding 21029, which will address ATCO Electric Transmission's 2015-2017 and ATCO Pipelines 2015-2016 licence fees. The Commission directed ATCO Electric and ATCO Pipelines to file a joint licence fee application with the Commission and therefore the Commission makes no determination on the licence fee issue in this application. The Commission directs ATCO Pipelines to include a zero dollar placeholder as directed in

the Commission's October 9, 2015 ruling in its compliance filing to this proceeding. .... Paragraph 455

20. For these reasons, the Commission directs ATCO Pipelines to incorporate the 2016 debt rate 4.29 per cent forecast shown in the following table in its compliance filing application: .... Paragraph 489

Table 31. 2016 debt rate forecast

Description		2016
	(%)	
Consensus forecast, 10-year (Exhibit 3577-X0297)		
December 2015	1.7	
December 2016	2.2	
2016 mid-year	1.95	1.95
10-30 year bond differential (Exhibit 3677-X0064, AP-AUC-75)		0.54
Credit spread (Transcript, Volume 2, page 419, lines 10-19)		1.80
2016 forecast debt rate		**4.29**

21. In the context of this application, the Commission recognizes that its predecessor, the Alberta Energy and Utilities Board, directed ATCO Pipelines to estimate the annual charge to the reserve fund based on one incident every five years. However, given the submissions of interveners, the Commission is cognizant that the environment in which that direction was made has changed and may not be the optimum methodology going-forward. However, consistent with past findings that a five-year average is optimal for estimates when specific costs are not available, the Commission finds it reasonable for ATCO Pipelines to use a five-year average to estimate unspecified incidents in the RID. In its next GRA, ATCO Pipelines is directed to provide an analysis of whether the five-year average remains the optimal methodology for the RID. .... Paragraph 521

22. Accordingly, the Commission considers that the Bittern Lake claim with the Surface Rights Board has already been approved for inclusion in the RID and therefore will not direct ATCO Pipelines to remove the associated legal fees from the RID. For future costs that may result from Surface Rights Board claims, or other regulatory proceedings that may result in legal or other costs, ATCO Pipelines is directed to identify and explain whether these costs should appropriately be included in the RID, or whether the costs are more appropriately included in a different, or separate, deferral account. ... Paragraph 524

23. The Commission considers that there is sufficient explanation on the record regarding the benefits of combining the AUC operating fees deferral account and hearing costs reserve account. Further, the proposal to combine the accounts would appear to reduce the number of deferral accounts that ATCO Pipelines is required to manage, and therefore, would create regulatory efficiency. The Commission finds that combining the two accounts is not expected to result in harm to the utility or to the public. The combining of the two deferral accounts into a single deferral account is approved. To ensure transparency and to allow for the continued identification of AUC operating costs within the account, ATCO Pipelines is directed to record separately, AUC operating costs and hearing costs, within the combined deferral account. .... Paragraph 534

24. With regard to CAPP's recommendation that the hearing costs be settled simultaneously with the settling of AUC operating fees when combining the accounts, the Commission finds that this would assist in the tracking of costs included in the combined reserve

account going-forward. The Commission therefore directs ATCO Pipelines to include the settlement of the AUC operating fees and hearing costs in its compliance filing, to recalculate the proposed settlement amount and to advise if there is any change to the proposed one-time adjustment for the settlement balance from the amount proposed in the application. .... Paragraph 535

25. The Commission considers that given the ongoing generic proceeding to address tax methodologies for regulated utilities, it is premature to approve ATCO Pipelines' proposal for a deduction of deferrals for tax purposes deferral account. Therefore, the Commission directs ATCO Pipelines to continue its practice of collecting or refunding deferred taxes on deferral balances for the test period. .... Paragraph 543

26. As the Supreme Court of Canada has rendered its decision on ATCO Pipelines' 2011 pension decision, the Commission agrees with ATCO Pipelines that a placeholder is no longer necessary for the 2015 and 2016 disallowed COLA costs. The placeholders for disallowed MTIP/LTIP, donations and sponsorships, and corporate costs are similarly not required. The Commission directs ATCO Pipelines to remove all of these placeholders in its compliance filing. .... Paragraph 566

27. The Commission also agrees that ATCO Pipelines' updated forecast depreciation rates and amortization of reserve differences amounts for 2015 and 2016 are reasonable and supported by the evidence on the record, and are therefore approved, as filed. The Commission, however, directs ATCO Pipelines, in the compliance filing to this decision, to update the depreciation expense forecasts to reflect the applicable directions included in this decision, most notably the directions with respect to the capital projects. .... Paragraph 580

28. (1) ATCO Pipelines is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than April 14, 2016. .... Paragraph 582