



ATCO Utilities

(ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.)

Evergreen II Application

Compliance Filing to Decision 2014-169 (Errata)

March 4, 2016

Alberta Utilities Commission

Decision 3378-D01-2016

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Published by the:

Alberta Utilities Commission

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1 Introduction

1. On August 18, 2014, the ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.) submitted a compliance application based on the directions issued in Decision 2014-169,¹ which set out the views and findings of the Alberta Utilities Commission respecting ATCO Utilities' 2010 Evergreen application.

2. The Commission published notice of application (alert of notice and notice of application) on its website and to parties involved in Proceeding 240² on August 20, 2014, and directed any party who wished to intervene in this proceeding to submit a statement of intent to participate (SIP) to the Commission by September 3, 2014. The Commission received SIPs from The City of Calgary and the Office of the Utilities Consumer Advocate (UCA). Both Calgary and the UCA requested an opportunity to submit information requests and reserved the right to submit intervenor evidence.

3. On September 29, 2014, the Commission issued a letter providing its determinations on certain preliminary matters and provided a schedule for a written process for this proceeding. The schedule was revised by the Commission on October 14, 2014, at the request of Calgary and the UCA to the following:

Activity	Due date
Information requests to the ATCO Utilities	October 15, 2014
Information responses from the ATCO Utilities	October 29, 2014
Submissions from parties on further process	November 5, 2014
Written final argument* (assuming no further process)	November 12, 2014
Written reply argument* (assuming no further process)	November 26, 2014

*If further process is required, a new process schedule will be issued.

4. The ATCO Utilities provided further updates and a correction to Appendix 1 AE-D Conf on October 3, 2014. On October 10, 2015, the Commission received correspondence from Calgary requesting additional time to prepare information requests. Calgary's request was supported by the UCA.

¹ Decision 2014-169: 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, June 13, 2014.

² Proceeding 240, 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), Application 1605338-1.

5. The Commission approved Calgary's request for an extension and revised the proceeding schedule as follows:

Activity	Due date	Revised due date
Information requests to the ATCO Utilities	October 15, 2014	October 21, 2014
Information responses from the ATCO Utilities	October 29, 2014	November 4, 2014
Submissions from parties on further process	November 5, 2014	November 12, 2014
Written final argument* (assuming no further process)	November 12, 2014	November 26, 2014
Written reply argument* (assuming no further process)	November 26, 2014	December 10, 2014

*If further process is required, a new process schedule will be issued.

6. On October 24, 2014, the Commission received a request from the ATCO Utilities for a four-week extension to respond to the information requests they received on October 21, 2014. The Commission approved this request on October 27, 2014, and further revised the proceeding schedule. The ATCO Utilities filed their responses to information requests on December 2, 2014.

7. On December 8, 2014, and 10, 2014, the Commission received motions from the UCA and Calgary, respectively, requesting further and better responses to information requests made of the ATCO Utilities.

8. The UCA motion also contained a request to submit further intervenor evidence on the topic of asset impairment under International Financial Reporting Standards (IFRS) and its application to the present value (PV) approach proposed by ATCO Electric.

9. Calgary also sought leave to file further evidence and requested that significant portions of the record of Proceeding 240 be incorporated into the record of this proceeding.

10. The Commission issued an errata to Decision 2014-169 (Decision 2014-169 (Errata)³) before the rulings on the motions were released. For the reasons provided in the ruling on the motions, the Commission accepted the UCA's request to submit intervenor evidence, and denied the requests by Calgary to provide intervenor evidence and to allow substantial portions of the record of Proceeding 240 to be added to the record of this proceeding.

³ Decision 2014-169 (Errata) issued February 6, 2015.

11. The Commission also established the following process schedule for the remainder of the proceeding:

	Prior schedule	Revised schedule
ATCO Utilities resubmission of application and information request responses including ruling on UCA and Calgary motions	n/a	March 17, 2015
UCA evidence	n/a	March 31, 2015
Information requests on UCA evidence	n/a	April 14, 2015
Information request responses on UCA evidence	n/a	April 28, 2015
Rebuttal evidence	n/a	May 12, 2015
Written final argument	November 12, 2014	May 25, 2015
Written reply argument	November 26, 2014	June 8, 2015

12. The Commission received a further letter from Calgary, dated March 24, 2015, requesting further process. On March 25, 2015, the UCA provided a letter of support for Calgary's request. The Commission set up a process pertaining to the request, and after hearing from registered parties, accepted the ATCO Utilities' offer to hold a one-day workshop to define what, if any, avenues of inquiry should be pursued through a further limited interrogatory process. This workshop was to be completed before April 28, 2015, and generate an agreed statement of what issues remain and how those issues were to be tested.

13. On April 30, 2015, the ATCO Utilities submitted an agreed list of outstanding issues along with a description of what information would be provided to resolve those issues. On June 9, 2015, the Commission directed that the identified information was to be filed with the Commission no later than Friday June 12, 2015.

14. The ATCO Utilities responded on June 12, 2015, explained what activity had been undertaken since April 28, 2015, and confirmed what was required to complete the process. On the same date, Calgary filed correspondence supporting the ATCO Utilities submissions.

15. On July 10, 2015, the ATCO Utilities filed the outstanding information arising from the April 28, 2015 workshop. On July 13, 2015, Calgary confirmed its view that the materials filed by the ATCO Utilities were satisfactory to test compliance with Decision 2014-169 (Errata). However, Calgary also noted a reference to new information technology (IT) services, and requested price schedules for all new services in the year in which they began to be offered and supporting documentation to indicate how the prices for new services were adjusted to account for the adjustments ordered by the Commission in Decision 2014-169 (Errata).

16. The Commission issued a letter on July 28, 2015, directing the ATCO Utilities to file the additional supporting information by August 5, 2015, and provided a revised process schedule as follows:

	Prior schedule	Revised schedule
Additional evidence from ATCO Utilities		August 5, 2015
UCA evidence	March 31, 2015	August 18, 2015
Information requests on UCA evidence	April 14, 2015	September 1, 2015
Information request responses on UCA evidence	April 28, 2015	September 15, 2015
Rebuttal evidence	May 12, 2015	September 29, 2015
Written final argument	May 25, 2015	October 13, 2015
Written reply argument	June 8, 2015	October 27, 2015

17. On October 5, 2015, the UCA filed a motion requesting on oral hearing on the rebuttal evidence of the ATCO Utilities regarding the issue of cash generating units. Following a process for addressing the UCA motion, the Commission provided ruling on October 20, 2015. In that ruling, the Commission established a written process regarding the ATCO Utilities' rebuttal evidence according to the following schedule:

Process step	Revised schedule
ATCO Utilities and UCA submissions on asset impairment versus accounting estimates and errors	October 30, 2015
UCA reply to ATCO Utilities rebuttal evidence and October 30, 2015 submission	November 12, 2015
ATCO Utilities reply to UCA October 30, 2015 submission and November 12, 2015 submission	November 23, 2015
Written final argument	November 30, 2015
Written reply argument	December 7, 2015

18. On December 2, 2015, the Commission received a request from the ATCO Utilities for a two-day extension to the deadline for filing reply argument. The Commission granted the ATCO Utilities' request on December 3, 2015, and changed the date for the filing of written reply argument to December 9, 2015.

19. On December 10, 2015, the ATCO Utilities filed correspondence objecting to certain portions of Calgary's reply argument, claiming that they should be struck. Calgary responded to the ATCO Utilities' comments on December 11, 2015. The Commission provided a ruling on the matter on December 17, 2015.

20. The Commission considers that the record for this proceeding closed on December 17, 2015.

21. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, including the

evidence and argument provided by each party. Accordingly, reference 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 a particular matter.

2 Compliance with directions from Decision 2014-169 and Decision 2014-169 (Errata)

22. In Decision 2014-169 the Commission ordered that:

474. ... The ATCO Utilities are to provide a compliance filing incorporating the directions in this decision by August 18, 2014 and provide in that compliance filing a proposal on how the ATCO Utilities intend to refund the overcharges to ratepayers from and including 2010.⁴

23. The ATCO Utilities stated in their compliance filing “The ATCO Utilities are submitting this Application in compliance with Commission Order 1 and Directions 1, 2, and 3 ...”⁵ and proposed the following process to refund amounts to their respective customers:

1. ATCO Electric – Distribution: The customer impact of this compliance filing is being incorporated in the September 10, 2014 Annual Rates Filing and will be included in customer rates effective January 1, 2015.
2. ATCO Gas: The customer impact of this compliance filing is being incorporated in the September 10, 2014 Annual Rates Filing and will be included in customer rates effective January 1, 2015.
3. ATCO Electric – Transmission: The customer impact of this Compliance Filing will be refunded to [the] Alberta Electric System Operator (AESO) subsequent to the AUC issuing a decision in this proceeding.
4. ATCO Pipelines: The customer impact of this Compliance Filing will be incorporated into the true up of deferral accounts in the next General Rate Application.⁶

24. The three directions in Decision 2014-169 were as follows:

1. Taking into account all the evidence, the Commission is persuaded that the PAC proposed IT Master Service Agreement pricing for 2010 is reasonable and directs the ATCO Utilities to adjust their 2010 prices accordingly as shown in Table 10 below. The ATCO Utilities are directed to adjust their 2010 CC&B [customer care and billing] prices as shown in Table 11 below: Paragraph 452
2. Nevertheless, the fact that two parties adverse in interest have provided proposed glide paths suggested by their respective consultants, provides the Commission with

⁴ Decision 2014-169, paragraph 474.

⁵ Exhibit 0001.00.ATCOGAS-3378, application, page 2.

⁶ Exhibit 0001.00.ATCOGAS-3378, application, page 3.

a range within which to exercise its judgement. The IT Master Services Agreement includes a labour cost adjustment each year that is applied as part of the annual price adjustments. Therefore, the Commission considers the glide path for IT services proposed by the ATCO Utilities to be too low. However, the Commission recognizes that the upper end of the range observed by PAC would not be indicative of all of the contracts observed by PAC. Therefore the Commission directs a glide path applied at the lower end of PAC's referenced [REDACTED] for each IT tower be applied to the IT Master Services Agreement. Consequently, the Commission directs the ATCO Utilities to apply the glide path for each tower as shown in the table below such that the overall glide path for IT services is set at [REDACTED]

[REDACTED] Paragraph 456

3. The Core CC&B service price contained in the Master Services Agreement [REDACTED]
[REDACTED] PAC has proposed [REDACTED] glide path for core CC&B services. The Commission is not persuaded that [REDACTED] glide path for CC&B services is warranted. Consequently, the Commission directs the ATCO Utilities to apply their applied-for glide path for CC&B services Paragraph 457

25. In the compliance filing, the ATCO Utilities provided the following response to the directions:

The adjustments to the approved forecast O&M [operating and maintenance] and Capital placeholders, Property Plant and Equipment (PP&E) balance adjustments, the Present Value (PV) calculations and the calculation of carrying charges are reflected in the following attachments to this filing:

1. Appendix 1 - ATCO Electric Distribution
2. Appendix 2 - ATCO Gas
3. Appendix 3 – ATCO Electric Transmission
4. Appendix 4 – ATCO Pipelines⁷

3 Appendix 4 – ATCO Pipelines background

3.1 Pricing compliance

26. The ATCO Utilities provided an explanation of how they dealt with compliance for each of ATCO Gas and ATCO Electric Distribution, which are distribution utilities operating under performance-based regulation (PBR), and both of ATCO Pipelines and ATCO Electric Transmission, which are subject to cost-of-service regulation.

27. The distribution utilities applied the glide paths approved in Decision 2014-169, to the 2010 prices (as adjusted by the decision) to establish the 2011 and 2012 IT and CC&B prices, as required.⁸ The 2012 IT and CC&B costs incurred by the two distribution utilities were reflected in the 2012 base rates for each of those companies for PBR purposes.

⁷ Exhibit 3378-X0005, page 5.

⁸ Decision 2014-169, paragraph 460.

28. The ATCO Utilities explained that the impact for the applicable years had been calculated for ATCO Electric Distribution and ATCO Gas by applying approved rates to approved volumes and comparing these values to placeholder amounts to arrive at any required adjustments. They also explained that for a limited number of instances where forecast volumes were not available as part of the ATCO Electric's 2009-2010 general tariff application (GTA), actual volumes had been used to calculate the financial impact of Decision 2014-169. The impact for 2013 and 2014 had been determined by indexing the 2012 revenue requirement adjustment by the approved I-X⁹ for each of the years 2013 and 2014.

29. The Commission's requirement¹⁰ that ATCO Electric Transmission and ATCO Pipelines determine the impact on their approved placeholders for 2010-2014 was complied with by applying AUC-approved rates to approved volumes and comparing these values to placeholder amounts to arrive at the adjustment for each respective year.

30. The ATCO Utilities noted that "The impact on actual PP&E for 2010-2012 has been calculated for ATCO Electric Transmission and ATCO Pipelines by applying the Commission approved rates to the actual volumes and comparing that to the actual costs to arrive at the adjustment for each respective year."¹¹

3.2 Present value calculations

31. The ATCO Utilities confirmed that the rates approved in Decision 2014-169 impacted both capital items and the associated actual PP&E balances. They proposed that a PV methodology be used to deal with the actual PP&E balance adjustments, in a manner consistent with what was approved in the 2003-2007 benchmarking and true-up proceeding and the Evergreen 2008-2009 proceeding. The ATCO Utilities stated that the proposed approach would allow them to keep existing actual direct capital and other (indirect) capital amounts included in the actual rate bases of the ATCO Utilities, which are currently included in customer rates, unchanged.

32. The ATCO Utilities submitted that use of the PV methodology was necessary to achieve consistency with the requirements of audited financial statements and income tax filings, which must reflect books of account created contemporaneously on an actual basis, using actual PP&E balances. They further submitted that using the PV approach would also avoid additional administrative effort and complexity associated with making rate base adjustments to reflect the Commission's approved rates, which would be required annually until the assets were fully depreciated. Finally, the ATCO Utilities noted that the proposed methodology would not cause intergenerational inequity because the impact on revenue requirements does not have a material effect on customer rates beyond 2014.

3.3 ATCO Gas governance costs

33. ATCO Gas stated it had complied with the Commission's direction¹² regarding governance costs which stated: "... The placeholders established in the ATCO Gas 2008-2009

⁹ I-X, is the (I) inflation factor minus the X (expected annual productivity growth) factor.

¹⁰ Decision 2014-169, paragraph 461.

¹¹ Exhibit 0001.00.ATCOGAS-3378, application, page 6.

¹² Decision 2014-169, paragraph 468.

GRA [general rate application] in respect of IT and CC&B governance costs for 2008 and 2009 are extended through 2010.”

3.4 ATCO Electric Distribution emergency services

34. ATCO Electric Distribution stated it had complied with the Commission’s direction¹³ regarding emergency services which stated: “ATCO Electric’s request for approval of the 2010 rate of \$56,103 per month for outage and emergency services is approved.”

3.5 Proceeding updates

35. On February 6, 2015, the Commission issued an errata to Decision 2014-169. Consequently, the ATCO Utilities were required to resubmit their compliance application on March 17, 2015, to reflect any resultant changes to pricing and placeholders.

36. As previously noted, interveners requested additional process following the March 17, 2015 filing by ATCO Utilities. The result was that the ATCO Utilities offered to hold a workshop to identify any remaining issues and how to test them. A one-day workshop was held on April 28, 2015, in Calgary.

37. On July 10, 2015, following a number of discussions between ATCO Utilities and Calgary, the ATCO Utilities filed the material identifying issues that had been at the centre of the parties’ discussions since the April 28, 2015 workshop. On July 13, 2015, Calgary provided confirmation that the filed materials would be satisfactory to test compliance with Decision 2014-169 (Errata).

38. The ATCO Utilities submitted the following updated material:¹⁴

Summary of new services

ISG [ISG/Utilipoint] allocation of service items by tower

CAL-AU-CONF-07(h) Attachment 2

CAL-AU-CONF-43 Attachment

Appendix 1 AED [ATCO Electric Distribution]

Appendix 2 AG [ATCO Gas]

Appendix 3 AET [ATCO Electric Transmission]

Appendix 4 AP [ATCO Pipelines]

39. ATCO Gas and ATCO Electric Distribution provided the following statements on August 5, 2015, in respect of the refund amounts:

¹³ Decision 2014-169, paragraph 471.

¹⁴ Exhibits 3378-X0024 to 3347-X0031 (redacted).

As submitted in Appendix 2, Schedule 1 on July 10, 2015, ATCO Gas has refunded to customers \$25,547 related to the Evergreen II True-up. This was approved by the Commission as part of the 2014 Interim Rates Decision 214-296 [*sic*] [¹⁵] (proceeding 3282) on an interim and refundable base effective November 1, 2014 to December 31, 2014. As reference ATCO Gas has attached AUC-AG-3(b) Attachment 1 - Rider S schedules for November 1, 2014 to December 31, 2014 implementation, from Proceeding 3282, exhibit 0026.07.ATCO Gas-3282.

As submitted in Appendix 1, Schedule 1 on July 10, 2015, ATCO Electric has refunded to customers \$13.791M related to the Evergreen II True-up. This was approved by the Commission as part of the 2014 Interim Rates Decision 214-295[*sic*] [¹⁶] (proceeding 3239) on an interim and refundable base effective November 1, 2014 to December 31, 2014. As reference please refer to the attached Proceeding 3239, exhibit 0031.03.AE-3239 Information Reponses AUC-AE-3(b) Attachment 1 for the Rate calculations in place between November 1, 2014 to December 31, 2014. Schedule D.1, line 82 shows the inclusion of the interim refund referenced earlier.¹⁷

4 Issues

4.1 Have the ATCO Utilities complied with the pricing as determined in Decision 2014-169 (Errata)?

4.1.1 IT pricing

40. Calgary submitted that the filings made by ATCO in July 2015, after the conclusion of the workshop process, represent a satisfactory effort by ATCO to comply with Decision 2014-169 (Errata) to adjust 2010 IT prices to those shown in Table 10 of that decision. Further, the workshop and resulting process allowed Calgary to:

- Ensure that the alignment of the service line items to the proper tower for IT services which was used for Table 10; this step was necessary to ensure that the price/rate adjustment recommended by PAC and ordered by the Commission in the Evergreen 2 Decision was properly applied to the service;
- Ensure that the proper rate adjustment ordered the Evergreen 2 Decision was in fact applied to the price/rate for the line item; and
- Ensure that linked spreadsheets were used to track the adjustments, which were derived for all ATCO Utilities in “master documents” such as CAL-AUCONF- 07(h) Attachment 2, to the individual Appendix for each utility.¹⁸ [footnotes removed]

41. On this basis, Calgary confirmed that, in its view, the July 10, 2015 filings of ATCO Utilities are satisfactory to demonstrate compliance with the base year (2010) IT price adjustments ordered in Table 10 of Decision 2014-169 (Errata).

¹⁵ Decision 2014-296: ATCO Gas and Pipelines Ltd., 2014 Interim Rates, Proceeding 3282, Application 1610653-1, October 24, 2014.

¹⁶ Decision 2014-295: ATCO Electric Ltd., 2014 Interim Rates, Proceeding 3239, Application 1610590-1, October 24, 2014.

¹⁷ Exhibit 3378-X0035, page 1.

¹⁸ Exhibit 3378-X0065, Calgary argument, paragraph 38.

Views of the Commission

42. The Commission has reviewed the ATCO Utilities' changes to the 2010 IT prices in comparison to the Commission's directions as set out in Table 10 of Decision 2014-169 (Errata).

43. Based on its review, the Commission finds that the ATCO Utilities have adjusted their respective IT costs and expenses as directed. The Commission notes the submission from Calgary that the adjustments made by the ATCO Utilities to the 2010 IT prices, in its view, are satisfactory. Therefore, the Commission finds that the ATCO Utilities' 2010 IT price adjustments satisfy the directions in Decision 2014-169 (Errata).

4.1.2 CC&B pricing

44. Calgary submitted that the ATCO Utilities had incorrectly calculated ATCO Electric Distribution's CC&B cost amounts in the following areas:

- (i) central processing unit (CPU) minutes;
- (ii) labour rate; and
- (iii) emergency outage services.

4.1.2.1 CPU minutes

45. Calgary stated that ATCO Electric had incorrectly inserted volumes for CPU minutes in the adjustment calculations in Appendix 1, when there were zero volumes in the placeholder for this item. Specifically, in the original application, (August 2014 filing) the placeholder amounts used by ATCO Electric Distribution for CC&B project services in 2010 included only labour hours and zero CPU minutes. ATCO Electric included volumes for both labour hours and CPU minutes at the Evergreen Rates tab of the application, resulting in an erroneous amount of █████ million included as a cost placeholder.¹⁹

46. Appendix 1²⁰ for ATCO Electric confirmed that the provided 2009-2010 GTA placeholder volumes only related to labour (i.e., there was zero volume for CPU minutes), and that the Evergreen II true-up volumes included both labour and CPU minutes. The CPU minutes volumes were cost items not included in ATCO Electric's original GTA forecasts and 2010 placeholders.

47. On this basis, Calgary argued that ATCO had incorrectly included approximately █████ million in overstated CC&B capital associated with the inclusion of the CPU minutes. Further, it argued that the Commission should direct ATCO Electric Distribution to restate the customer refund, by the corrected 2010 true-up amounts for this item, to remove the overstated capital impact from the 2010 revenue requirement.²¹

48. In reply, the ATCO Utilities stated that, as provided in CAL-AU-CONF-21(n), the August 2014 original application did not separate out the CPU minutes because they were included in the specific capital projects to which they related. However, in Appendix 1 (July 10,

¹⁹ Exhibit 3378-X0065, Calgary argument, paragraph 57.

²⁰ Appendix 1 July 10 (ATCO Electric Distribution), 2010 CC&B Capital tab, rows 7 and 9.

²¹ Exhibit 3378-X0065, Calgary argument, paragraphs 59-60.

2015), the CPU minutes were removed from the individual projects amounts and presented as a separate category.

49. The ATCO Utilities submitted that Calgary is incorrect in its view that they are now seeking to insert volumes where placeholders were previously zero. They claim that only the format has changed. As a result, there is no overstatement of CC&B capital. Therefore, no adjustment is required and Calgary's request should be denied.

Views of the Commission

50. The Commission has reviewed the ATCO Utilities' changes to the 2010 CC&B prices, in comparison to the Commission's directions as set out in Table 11 of Decision 2014-169 (Errata). The Commission has also considered Calgary's submission that the customer refund for ATCO Electric is understated as a result of an incorrect treatment of placeholder amounts for CPU minutes.

51. The Commission has examined the CPU minutes data, and is unable to trace reductions in CPU minutes back to the placeholder amounts identified in the original application. The Commission is also unable to confirm whether other line items related to specific capital projects were reduced to account for CPU minutes being removed from those specific projects and being shown as their own line item.

52. However, the Commission is satisfied that any potential misstatement of CPU minutes has not had a material impact on the relevant CC&B amounts or the resultant customer refund amounts. The Commission has examined the linked excel spreadsheets filed by the ATCO Utilities. The Commission is satisfied that the ATCO Utilities have reasonably incorporated the Commission's various adjustments directed from time to time and have reasonably displayed the line items associated with IT and CC&B costs. The Commission, upon its review, is satisfied that the adjusted amounts are reasonably consistent with the approved CC&B costs in Table 11 of Decision 2014-169 (Errata).

53. On this basis, the Commission finds that the ATCO Utilities have satisfactorily explained that there is no overstatement of CC&B capital, and no further action is required with respect to CPU minutes.

4.1.2.2 Labour rate

54. Calgary argued that the customer refund for ATCO Electric Distribution was also understated as a result of ATCO Electric using an incorrect price in its computation of the refund with respect to CC&B direct capital.

55. For the 2010 CC&B direct capital, ATCO Electric used volumes of [REDACTED] hours and a labour price of [REDACTED], for a placeholder amount of [REDACTED].²² ATCO Electric reduced this price by 25 per cent to arrive at an adjusted labour price of [REDACTED]. Calgary argued that the placeholder bears no resemblance to the master service agreements (MSA) price, i.e., the price

²² Calgary confidential argument, November 30, 2015, paragraph 64.

that was tested in Proceeding 240. The price and volumes that are applicable to the labour volume of [REDACTED] hours is entirely related to the labour service line item of “Analyst 4.”²³

56. Calgary noted that the 2010 actual contract price for analyst 4 job category was [REDACTED]. The adjusted labour price for 2010 is a 25 per cent reduction of the [REDACTED] price, or [REDACTED]. The impact of ATCO Utilities’ error, for 2010, is [REDACTED].²⁴

57. Calgary also took the position that, in addition to 2010 adjustments, the prices used in the computation for the refund from this direct capital amount for years after 2010, should also be adjusted in accordance with the corrected price for 2010 and the glide path. Calgary calculated these amounts as being [REDACTED] for 2011 and [REDACTED] for 2012.²⁵

58. The ATCO Utilities’ response was that Calgary based its position on the incorrect assumption that the labour rate only relates to the “Analyst 4” category.

59. The ATCO Utilities submitted that Calgary had mistakenly assumed that the forecast for all CC&B labour costs in 2010 was based on an analyst 4 position and that any or all future forecasts for labour hours and rates would only include an analyst 4. However, the blended rate used for these projects also included consultants, senior consultants and project managers and the \$175.07 used in the compliance filing is based on the correct mix of all these labour categories. They maintained that no adjustment is required for this item and that Calgary’s request should be denied.

Views of the Commission

60. The labour rate provided by the ATCO Utilities was a blended rate that included a mix of consultants, project managers, and other staff. Consequently, the Commission finds that the ATCO Utilities have reasonably adjusted the labour amounts in the CC&B component, and the resulting adjustments to placeholders are correct. On this basis the Commission accepts the ATCO Utilities’ adjustments to the labour component.

4.1.2.3 Emergency outage services

61. Calgary claimed that ATCO Electric Distribution had overstated its cost placeholders for Emergency Services. These services, formerly provided by ATCO I-Tek Business Services (ITBS), were repatriated by ATCO Electric on or about January 1, 2011.

62. In response to the subsequent ATCO Utilities filing updates, Calgary confirmed that ATCO Electric has removed its emergency services expense placeholders for 2011 and 2012, with the result that these amounts were corrected during the discovery phase of this proceeding.

63. The ATCO Utilities agreed with Calgary that this matter had already been dealt with and no further adjustment is required.

²³ Exhibit 3378-X0065, Calgary argument, paragraph 65, redacted. Confidential information is from Calgary confidential argument of November 30, 2015, paragraph 65.

²⁴ Exhibit 3378-X0065, Calgary argument, paragraphs 66-67, redacted. Confidential information is from Calgary confidential argument of November 30, 2015, paragraphs 66-67.

²⁵ Exhibit 3378-X0065, Calgary argument, paragraph 68. Confidential information is from Calgary confidential argument of November 30, 2015, paragraph 68.

Views of the Commission

64. Both Calgary and ATCO agree that no further adjustments are required with respect to emergency outage services. The Commission has reviewed the adjustments undertaken by the ATCO Utilities, and finds that the amounts are correct, and that the ATCO Utilities have complied with this direction. No further direction is required with respect to this item.

4.1.3 Placeholders

65. Calgary pointed out that there were a number of instances in the filings for each of the ATCO Utilities where complete sets of placeholder costs, based on the product of forecast volume of service multiplied by MSA price from the proposed MSA were not provided.

ATCO Gas

66. ATCO Gas completed a GRA for the test years 2008 and 2009, but did not complete a GRA in respect of 2010. Its next GRA applied to the 2011 and 2012 test years. As a consequence, ATCO Gas's IT and CC&B rates for 2010 were, in part, based on IT and CC&B rates in a pre-existing MSA with ATCO I-Tek, and not from the rates for 2010 contained in the proposed MSAs.

67. The ATCO Utilities indicated that the rates paid by customers in 2010 for ATCO Gas would have reflected rates related to previous MSAs. The 2010 rates for ATCO Gas were based on MSAs which terminated at the end of 2009.

68. ATCO Gas did not have a placeholder amount in 2010, as 2010 was not a test year for ATCO Gas; the rates charged to customers were approved and finalized in Decision 2011-228.²⁶ ATCO Gas did not request additional funding for its costs which would have been subject to change.

69. ATCO Gas maintained that it had correctly used the last approved rates in 2010 and the use of these rates was not previously challenged or contested. The ATCO Utilities submitted that it would be inappropriate to somehow retroactively reopen this item and seek to treat it differently than any other of ATCO Gas's 2010 costs, when ATCO Gas did not request an adjustment to rates, and therefore did not require approval from the Commission in 2010. All of ATCO Gas's costs were based on previously approved rates in prior decisions. In ATCO Gas's view, Calgary's recommendation is not only inconsistent with the amounts collected from customers in 2010, but it also ignores the additional costs absorbed by ATCO Gas in a non-test year. It argued that no adjustment is required for this item.

ATCO Electric

70. Calgary noted that at the time of ATCO Electric's 2009-2010 GTA, the company's distribution and transmission functions were combined. Further, the utility's 2010 rates were also partly based on IT and CC&B rates from a previous MSA with ATCO I-Tek and not from the MSAs proposed for 2010.

²⁶ Decision 2011-228: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.), 2008-2009 Evergreen Application, Proceeding 77, Application 1577426-1, May 26, 2011.

71. The ATCO Utilities explained that ATCO Electric relied upon the placeholder volumes and rates that were tested and approved by the Commission in the ATCO Electric 2009-2010 GTA Compliance Decision 2010-056²⁷ for 2010. These were the placeholder rates and volumes that the company used in determining its transmission tariff and distribution rates for 2010. As such, these were the correct costs to be adjusted in accordance with Decision 2014-169 (Errata). In its view, to substitute the 2010 MSA rates, as suggested by Calgary, would lead to an incorrect and possibly lower refund to customers.

ATCO Pipelines

72. ATCO Pipelines' stated that its rates for 2010 through 2012 were based on a negotiated settlement, and as a result, the utility did not file or disclose the forecast amounts to be used as placeholders. In addition, it failed to provide or disclose forecast volumes for a number of significant IT services in its 2013-2014 GRA.

73. Calgary did not propose that the Commission should take any further action concerning these outcomes, other than with respect to ensuring that the final costs to customers for 2010 reflects the Commission's findings in Decision 2014-169 (Errata). Calgary submitted that customers should pay no more than those ordered charges for 2010, as they would relate to each ATCO utility.

74. Calgary recommended that each of ATCO Gas, ATCO Electric and ATCO Pipelines be directed to file, in a compliance filing, the actual IT and CC&B costs collected in rates from customers in 2010. It argued that if costs recovered from customers are higher than approved in tables 10 and 11, the ATCO Utilities should be ordered to refund the excess for customers.

75. Calgary also recommended that in future proceedings, including Proceeding 20514,²⁸ the ATCO Utilities should be prevented from using actual volumes for the purposes of establishing and adjusting placeholders.

76. The ATCO Utilities position was that the Commission will deal with future applications before it as the circumstances warrant and that no action is required and Calgary's suggestion should be ignored.

Views of the Commission

77. The treatment of 2010 IT and CC&B rates was clearly set-out in Decision 2009-252,²⁹ in which the Commission stated:

33. Based on this information, and the submission of ATCO, the Commission finds that approving the Interim Proposal will not result in rate changes or changes to placeholders or revenue requirement in 2010 for the ATCO Utilities. ATCO was very clear when it indicated that the IT and CC&B rates to be included in revenue requirement for this interim period for all ATCO Utilities must await the determination of the 2010

²⁷ Decision 2010-056: ATCO Electric Ltd., 2009-2010 General Tariff Application – Phase I Compliance Filing, Proceeding 279, Application 1605361-1, February 9, 2010.

²⁸ The ATCO Utilities IT common matters proceeding.

²⁹ Decision 2009-252: ATCO Utilities, 2010 Evergreen – Interim Decision, Proceeding 240, Application 1605338-1, December 11, 2009.

Evergreen Proceeding. The Commission agrees with ATCO, and finds that the IT and CC&B rates in respect of the interim period which will be eventually applied to approved volumes and included in the final 2010 revenue requirement for the ATCO Utilities will be determined in the 2010 Evergreen Proceeding. On this basis the Commission accepts ATCO's request to implement the new MSAs (other than the charges and rates provided for thereunder) on an interim basis effective January 1, 2010. [emphasis added]

78. Also in Decision 2009-252, the Commission indicated that it “was considering interim approval for provision of IT and CC&B services to ATCO Utilities” and confirmed that “In this case, Interim refers specifically to the period of time from January 1, 2010 until the Commission issues its ruling on the Application.”³⁰

79. On this basis, the Commission is of the view that the approvals in the 2010 Evergreen proceeding would impact IT and CC&B prices, which in turn would impact revenue requirement and the associated rates for all of the ATCO Utilities. The impact on rates would be independent of any final or interim rates that were in place. Consequently, in this proceeding, the Commission should determine the final customer amounts for each of the respective years.

80. The Commission does not accept ATCO Gas's argument that 2010 rates were not challenged because the Commission confirmed that the results of the 2010 Evergreen proceeding would affect utility rates for 2010. Further, ATCO Gas's argument that “it would be inappropriate to somehow retroactively reopen this item and seek to treat it different from any other of ATCO Gas' 2010 costs” is without merit, given the Commission previously stated that the 2010 Evergreen proceeding would affect utility rates for 2010.

81. The Commission directs the ATCO Utilities to file the actual IT and CC&B costs collected in revenues from customers in 2010 for consideration in a true-up as either a part of their next annual PBR rates adjustment filing or, alternatively, as part of any annual filing of adjustments for the affected cost-of-service utilities. The true-up will provide a reconciliation of the refunds to customers stemming from Decision 2014-169 (Errata) and from this compliance application decision. If costs recovered from customers are higher than approved in tables 10 and 11 (plus adjustments for carrying costs), these amounts will be refunded.

82. The Commission is of the view that ATCO Pipelines should not be using actuals for placeholders. In future filings, placeholders should continue to be based on forecast values. In light of the Commission's direction above, any corrections or adjustments to revenue requirement will be captured in the true-up application.

4.1.4 Glide path

83. Because issues relating to PBR rebasing will be tested in Proceeding 20414,³¹ Calgary argued that it is within the scope of the Proceeding 20414 to consider a cost-of-service basis for the establishment of rebased rates for the next generation of PBR. Calgary submitted this is necessary to ensure that the Commission and customers have an accurate record of costs of the PBR utilities to engage in cost-of-service rebasing, should one be undertaken.

³⁰ Decision 2009-252, footnote 6.

³¹ Proceeding 20414, generic proceeding to establish parameters for the next generation of performance-based regulation plans.

84. In Calgary's view, it is essential that ATCO Gas and ATCO Electric Distribution be directed to file property accounts (PP&E) and operating and maintenance statements for periods after 2012 that can be relied upon and used for PBR rebasing purposes. It claimed that it would be more efficient to deal with this matter now and have proper data accounts to bring forward, rather than looking back into this proceeding to establish accurate cost records at a later date.

85. The ATCO Utilities argued that Calgary was seeking to improperly expand the scope of this proceeding. They noted that the Commission had already ruled that other utilities currently operating under PBR are not part of this proceeding, and that the purpose of this proceeding is to confirm that the ATCO Utilities have properly implemented the decisions contained in Decision 2014-169 (Errata).

86. ATCO Utilities submitted that matters related to PBR rebasing will be dealt with in accordance with the process ultimately established by the Commission in the context of a future proceeding (Proceeding 20414).

87. The ATCO Utilities added that the Commission has been clear and consistent in its view that, as part of the PBR regime, capital should only be reviewed if it meets the capital tracker criteria and could properly be addressed through the capital tracker process. Consequently, it is entirely inappropriate to expand the scope of this proceeding as suggested by Calgary and the suggestion should be rejected by the Commission.

Views of the Commission

88. The Commission has reviewed the information and calculations filed by the ATCO Utilities in applying the glide path to IT and CC&B rates. The Commission is satisfied that the ATCO Utilities have complied with the Commission's direction in this regard.

89. The Commission has also considered Calgary's recommendation that the PBR utilities should file property accounts (PP&E) and operating and maintenance statements for periods after 2012 that can be relied upon and used for PBR rebasing purposes. Having done so, it is not persuaded that the information requested by Calgary is required to be filed. If Calgary or other interveners consider this information to be necessary in Proceeding 20414 as suggested, parties may make this recommendation to the Commission in that proceeding.

5 Present value approach

90. In this application, the ATCO Utilities are proposing the following process to refund amounts to their respective customers:

1. ATCO Electric – Distribution: The customer impact of this Compliance Filing is being incorporated in the September 10, 2014 Annual Rates Filing and will be included in customer rates effective January 1, 2015.
2. ATCO Gas: The customer impact of this Compliance Filing is being incorporated in the September 10, 2014 Annual Rates Filing and will be included in customer rates effective January 1, 2015.

3. ATCO Electric – Transmission: The customer impact of this Compliance Filing will be refunded to [the] Alberta Electric System Operator (AESO) subsequent to the AUC issuing a decision in this proceeding.

4. ATCO Pipelines: The customer impact of this Compliance Filing will be incorporated into the true up of deferral accounts in the next General Rate Application.³²

5.1 PBR utilities (ATCO Electric Distribution and ATCO Gas)

91. In Decision 2014-169, the Commission stated:

460. ... Total factor productivity studies reflect the net contribution of these changes to overall performance. To separate out IT and CC&B costs would be to distort unnecessarily the incentives created by performance based regulation and would be inconsistent with the principles of performance based regulation. Therefore, the Commission will require that ATCO Electric distribution and ATCO Gas distribution apply the glide paths approved in this decision to the 2010 prices as adjusted by this decision in order to establish the 2011 and 2012 IT and C&B prices. The 2012 IT and CC&B costs incurred by the two distribution utilities will be reflected in the 2012 base rates for each of those companies for PBR purposes.

92. Accordingly, the impact for the applicable years has been calculated for ATCO Electric Distribution and ATCO Gas by applying the AUC approved rates to the approved volumes and comparing that to the placeholder amounts to arrive at the adjustment for each respective year. Where forecast volumes were not available as part of the ATCO Electric Distribution's 2009-2010 GTA, actual volumes were used to calculate the financial impact of Decision 2014-169. The impact for 2013 and 2014 has been determined by indexing the 2012 revenue requirement adjustment by the approved I-X for 2013 and 2014.

5.2 Cost-of-service utilities (ATCO Electric Transmission and ATCO Pipelines)

93. In Decision 2014-169, the Commission stated that:

461. The glide paths approved in this decision will continue to apply to the other regulated ATCO entities that are not subject to PBR regulation through to the end of the terms of the Master Services Agreements.³³

94. ATCO Electric Transmission and ATCO Pipelines have determined the impact on their approved placeholders for 2010-2014 by applying the AUC approved rates to the approved volumes and comparing that to the placeholder amounts to arrive at the adjustment for each respective year. The impact on actual on PP&E for 2010-2012 has been calculated for ATCO Electric Transmission and ATCO Pipelines by applying the AUC approved rates to the actual volumes and comparing that to the actual costs to arrive at the adjustment for each respective year.

³² Exhibit 0001.ATCOGAS-3378, page 3.

³³ Decision 2014-169, paragraph 461.

5.3 Present value calculations

95. The ATCO Utilities have proposed using a PV methodology to deal with the actual PP&E balance adjustments associated with the Decision 2014-169 IT and CC&B disallowance.

96. For ATCO Electric Transmission and ATCO Pipelines, the actual PP&E adjustment was made for the 2010-2012 period. For ATCO Electric Distribution and ATCO Gas, this adjustment was made for the 2010-2013 period. ATCO Electric Distribution and ATCO Gas included an adjustment to the actual 2013 PP&E balances because the PBR utilities are currently seeking capital tracker funding for 2013 actual capital additions in their respective capital tracker proceedings. ATCO Electric Distribution and ATCO Gas will address a further adjustment to the 2014 PP&E balances once actual 2014 additions are known.

97. ATCO Electric Distribution and ATCO Gas propose to continue the use of the PV one-time payment true-up approach to address the difference between rates included in the 2014 utility revenue requirement for PBR purposes and the amounts approved by the Commission for actual capital volumes. The impact of any difference were incorporated into their respective September 2015 annual rates filings. Adjusting the actual PP&E balances for 2010-2014 using the PV methodology results in the PBR utilities not having to adjust the actual capital additions in their respective capital tracker applications while still providing customers with the appropriate refunds for the 2010-2014 period.

98. For ATCO Electric Transmission and ATCO Pipelines, a further PV calculation will be completed for the 2013 and 2014 years and will be settled with customers after the 2014 actual capital additions are finalized.

99. Based on the Commission’s reductions to IT and CC&B costs in Decision 2014-169, the ATCO Utilities have calculated the amounts owing from utilities using its PV method:

Table 1. Ratepayer refund amounts using the PV methodology

ATCO Electric Distribution	\$13,791,000 ³⁴
ATCO Gas	
– ATCO Gas South	\$12,845,000
– ATCO Gas North	\$12,853,000 ³⁵
ATCO Electric Transmission	\$7,883,000 ³⁶
ATCO Pipelines	\$3,225,000 ³⁷

Views of the parties

UCA

100. The UCA stated that IFRS asset impairment eliminates the need for the use of the PV methodology because it also removes the administrative burden of maintaining separate financial

³⁴ Exhibit 0002.00.ATCOGAS-3378, Evergreen II true-up 2010-2014.

³⁵ Exhibit 0016.09.ATCOGAS-3378, Evergreen II true-up 2010-2014.

³⁶ Exhibit 0004.00.ATCOGAS-3378, Evergreen II true-up 2010-2014.

³⁷ Exhibit 0016.02.ATCOGAS-3378, Evergreen II true-up 2010-2014.

reporting and regulatory records, while also avoiding intergenerational equity concerns and risk problems from educated guesswork about future economic conditions included in the assumptions of the PV methodology.

101. International Accounting Standard (IAS) 36 provides guidance around impaired assets. The objective of IAS 36 is:

... to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

102. In the UCA's view, because the Commission ruled in Decision 2014-169 that certain costs related to IT and CC&B are not to be recovered from customers, the recoverable amount through use of these assets will be less than the cost for which these assets are carried on the ATCO books, and the potential for a write-down exists. The UCA submitted that Decision 2014-169 can be seen as a "triggering event" for the purpose of IAS 36. Consequently, any disallowed costs are not recoverable. Further, the UCA submitted that capitalized IT and CC&B costs are each cash-generating units that may be independently impaired to account for the Commission's disallowance of these costs. In IAS 36, the International Accounting Standards Board describes the concept of cash-generating units (CGU):

68. As defined in paragraph 6, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgement. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

103. The UCA explained that as a result of the disallowances in Decision 2014-169, assets that include costs from ATCO I-Tek have clearly declined in value more than would be expected as a result of the passage of time, and normal use. As utility prices are a direct derivation of allowed costs, the disallowed IT and CC&B costs constitute a CGU, and the ATCO Utilities should therefore apply the impairment test.

104. The UCA also submitted that paragraph 37 of IAS 8 requires that changes in estimates related to assets be recognized by adjusting the carrying value of the related assets:

37. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

105. The UCA asserted that that the costs included in the accounts of the ATCO Utilities were estimates, with a possibility of reductions, because IT and CC&B costs were placeholders pending the outcome of Proceeding 240. If the Commission determines that IAS 8 applies, the utility would adjust the carrying amount of the assets down to only include the approved costs, and customers would only pay for the approved IT and CC&B costs. The net effect for

customers is the same as impairing the assets under IAS 36. One of these two options should be adopted by the Commission in this proceeding, and the continued use of the PV method should be denied.

106. The UCA requested that the Commission:

1. accept that both asset impairment under IAS 36 and a change in accounting estimate under IAS 8 are available to account for the disallowed IT and CC&B assets at issue;
2. direct the AU [ATCO Utilities] to account for the disallowed IT and CC&B assets by impairing those assets;
3. in the alternative, direct the AU to account for the disallowed IT and CC&B assets by adjusting the IT and CC&B assets' carrying amount by applying IAS 8; and
4. direct the AU to recalculate the interest payable to it based on the actual Bank of Canada interest rates for 2014 and 2015, on a monthly basis.³⁸

107. The UCA submitted that there is no direct evidence on the record of this proceeding from either Ernst & Young or the ATCO Utilities' auditor indicating that the disallowed IT and CC&B costs at issue in this proceeding cannot be a CGU as proposed by the UCA. The UCA submitted that it has provided persuasive reasoning for why its proposed interpretation of the appropriate CGU is allowed under IAS 36, and that the ATCO Utilities have not successfully rebutted this proposition. As a result, it urged the Commission to direct the ATCO Utilities to apply asset impairment to the disallowed assets.

108. The UCA argued that the potential risk of intergenerational equity arising from repeated applications of the PV method, however small, still exceeds the benefits of applying the PV method instead of asset impairment or changes in accounting estimates, because there are no benefits to the PV method over those alternatives.

109. The UCA also notes that the issues identified by Calgary regarding the ATCO Utilities' compliance filing, and the associated increases in refunds, are the type of risks associated with the application of the PV method. The UCA argued that refunds should be more precise because they rely on historical information than a PV calculation that relies on guesswork on future economic conditions.

Calgary

110. Calgary submitted that the information provided by the four ATCO Utilities with respect to the PV for the period post-2014 is inconsistent. It argued that interveners and the Commission should reasonably expect consistency, if not uniformity, of information content and presentation among the four utilities for a compliance filing, to allow for regulatory efficiency. Calgary supplied Table 7³⁹ which purported to show that the ATCO Utilities had not

³⁸ Exhibit 3378-X0062, paragraph 48.

³⁹ Exhibit 3378-X0065, PDF page 39. Confidential/unredacted argument filed December 1, 2015, PDF page 39.

provided all the data required to completely quantify the amounts for the purposes of determining the rate base overstatement and the resulting revenue requirement overstatement.⁴⁰

111. Calgary argued that on a combined utility basis, the assets of the ATCO Utilities are overstated by a minimum of \$16,373,000. Using the ATCO Utilities' PV methodology (which Calgary contends is erroneous and inappropriate), and all else being equal, this valuation results in an overstatement of combined utility revenue requirements of \$27,643,000, from 2015 until the assets would be fully depreciated.

112. Based on the foregoing, Calgary submitted that the ATCO Utilities are currently using rate bases that are unduly inflated, as a result of the ATCO Utilities' compliance filing, by failing to adjust each year's rate base for IT and CC&B price reductions ordered in the Evergreen II decision. It argued that, to correct this failure, the ATCO Utilities should reduce those rate bases by at least \$16.373 million. Customers would then benefit from resulting lower revenue requirements (depreciation, return and taxes) for each respective utilities, in an amount of, at least, \$ 27.643 million, collectively, for the period from 2015 until the assets are fully depreciated. Calgary submitted that the current ATCO Utilities' compliance filing does not result in this \$27.6 million reduction in future rates. To the contrary, future rates would be inflated due to the unchanged rate base amounts. In its view, this can be plainly observed by the following two step process in the ATCO Utilities' PV proposal. First, the ATCO Utilities propose to refund the PV of the \$27.6 million impact on future revenue requirements through a one-time reduction of \$15.1 million. Second, the ATCO Utilities would the collect higher rates through equal or greater customer charges, based upon the revenue requirement components derived from the overstated rate base.⁴¹

113. Calgary argued that the ATCO Utilities' proposed PV approach does not provide a net refund to customers for disallowed capital (rate base) that was overstated by MSA prices. In effect, the overstated amounts would be paid back by customers, and recovered by ATCO Utilities with the result that the ATCO Utilities would not experience an actual disallowance for the IT and CC&B MSA rates that the Commission deemed were imprudent and excessive, in Decision 2014-169 (Errata).

114. Calgary argued that the ATCO Utilities' methodology could be characterized as a loan by ATCO to customers (at a value of the PV amounts), with customers bearing the risk of changes in depreciation, return and income tax rates and a repayment of the loan (the revenue requirement impact of inflated rate base), over the period post-2014. It claimed that the ATCO Utilities' proposed PV method would not result in the reductions contemplated in Decision 2014-169 for the ATCO Utilities because the utilities would ultimately recover non-adjusted IT and CC&B rates in revenue requirement.

115. In summary, Calgary submitted that the use of the PV method does not result in just and reasonable rates. However, Calgary also recognized that since ATCO Electric (Distribution) and ATCO Gas have provided some interim refund amounts to customers, to date, based on the PV

⁴⁰ Exhibit 3378-X0065, page 39.

⁴¹ Exhibit 3378-X0065, pages 40-41.

methodology prior to 2015, there may need to be a repayment as a result of the disallowance of the PV methodology.

116. Calgary submitted that the ATCO Utilities' proposed PV method produces overstated rate bases in the accounts of the ATCO Utilities. It claimed that the effects of that overstatement are severe transgressions against long standing regulatory principles and lead to perverse outcomes, as follows:

- intergenerational inequity
- customers have zero net benefit from reduced prices to capital
- there is no penalty to the ATCO shareholders, in respect of capital, for entering into an imprudent transaction, with customers bearing all the risk of the PV method

117. Calgary argued that whether the ATCO Utilities are required to record an adjustment for impairment (or not) in respect of the financial statements is for the companies' auditors to decide, not the Commission. What is clear is that the amounts that were recorded in the accounts of the ATCO Utilities that included prices from the I-Tek MSA, were only placeholders subject to potential disallowance and adjustment. The PV method, does not accomplish the directed adjustments as directed in Decision 2014-169.

118. Calgary submitted that Commission approval of the ATCO Utilities' proposed PV method would result in imprudent ATCO Utilities' costs being included in rate base.

119. In Decision 2014-169, the Commission found that the prices in the proposed MSAs were not at fair market value (FMV), and that the ATCO Utilities' actions in entering into those MSAs were not prudent. Calgary submitted that the Commission has no jurisdiction to fix or establish a rate base which includes imprudent costs because the result would be the approval of rates which are not just and reasonable.

120. Calgary cited a recent decision of the Court of Appeal of Alberta which confirmed that when setting rates, the Commission's public interest mandate requires it to provide utilities in Alberta with a reasonable opportunity to recover prudent costs:

[114] Rate-setting hearings require the Commission to determine whether the rates claimed are "just and reasonable". In discharging this obligation, the Commission must act in the public interest by considering both the customers' right to fair and reasonable rates and the utilities' reasonable opportunity to its prudent costs.⁴²

121. In Calgary's submission this jurisprudence also affirms the converse proposition: that the Commission has no jurisdiction to include costs in rate base which are imprudent nor approve customer rates which are not just and reasonable.

⁴² *ATCO Gas and Pipelines Ltd. v Alberta* (Utilities Commission), 2014 ABCA 397.

122. Calgary submitted the proposed PV method should be rejected for the following reasons:

1. it would be harmful to customers, as customers would pay back the refund that they are rightfully entitled to as a result of the Evergreen 2 Decision;
2. it would not result in a penalty to the utility shareholders with respect to rate base, as the cost of capital, income tax and depreciation on inflated rate base would recover, over time, all that is refunded to customers today;
3. it would result in risk to the Customers for changes in cost of capital, income tax and depreciation rates;
4. it would inevitably violate the principle of intergenerational equity; and
5. if approved by the Commission, would result in the Commission exceeding its jurisdiction by setting rates which are not just and reasonable and by setting a rate base for each of the ATCO Utilities which includes imprudent costs.⁴³

The ATCO Utilities

123. The ATCO Utilities argued that the PV methodology remains the only viable alternative to avoid the unnecessary administrative burden of maintaining separate records for the disallowed portion of the IT asset cost recovery from Decision 2014-169. In their view, the circumstances supporting the continued use of the PV methodology have not changed from those underlying the Commission's approval of this methodology in Decision 2010-102⁴⁴ and Decision 2011-485.⁴⁵

124. The ATCO Utilities further submitted that the disallowed IT capital costs do not meet the test for asset impairment under IAS 36. In rebuttal evidence, the ATCO Utilities explained the basis for their long standing accounting policy under IAS 36, whereby the lowest level that cash flows is at the utility system level. The application of IAS 36 is required to determine if there is a material change to future cash flows at the cash generating unit level. The ATCO Utilities determined what constitutes a cash generating unit in accordance with IAS 36, as confirmed by its independent auditors, Ernst & Young:

We further understand that for each of the CGUs, the regulator approves the total revenue requirement as well as the customer rates that will be applied to recover the revenue requirement which will ultimately determine the cash inflows. It was noted in discussions with Management of ATCO Utilities that the rates are not independent from one city to another and even though it costs more to provide a service to some customers, each customer is charged the same average rate. As such, each CGU is managed at the revenue requirement level and reports to the AUC at that level. Given the cash inflows are interdependent because the rates ATCO Utilities can charge the customer are regulated at the Phase 1 revenue requirement level above, that would appear to be consistent with the requirement to consider the lowest level at which the cash inflows are independent from other groups of assets. If ATCO Utilities was able to attribute independent cash inflows to groups of assets at a lower level than the Phase 1 revenue requirement level, for

⁴³ Exhibit 3378-X0068, Calgary reply argument, paragraph 58.

⁴⁴ Decision 2010-102: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.), 2003-2007 Benchmarking and ATCO I-Tek Placeholders True-Up, Proceeding 32, Application 1562012-1, March 8, 2010.

⁴⁵ Decision 2011-485: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.), 2008-2009 Evergreen Application, Compliance Filing to Decision 2011-228, Proceeding 1321, Application 1607460-1, December 12, 2011.

example, if rates were set at an individual facility level or at a municipality level, then the CGUs would likely be identified at that smaller asset group level. However, ATCO Utilities does not have the capacity to curtail specific services to a particular region or business unit that has been identified as unprofitable. IAS 36.69 states that “in identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity’s operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity’s assets and operations.” This appears to support the position that the lowest level of independent cash inflows would be at the Phase 1 revenue requirement level.⁴⁶

125. The ATCO Utilities confirmed that the cash generating units continue to generate a rate of return for the ATCO Utilities and therefore, are not impaired.

126. The ATCO Utilities submitted that the UCA has not provided any evidentiary support for its position that a cost of service calculation is the basis for determining the lowest level at which cash flow can be generated. They argue further that paragraph 71 of IAS 36 goes on to specify that the output of a CGU must be capable of being sold in an active market. In their view, there is no active market for the integrated IT assets of the ATCO Utilities, which are comprised of systems specifically designed to support the operations of the ATCO Utilities.⁴⁷

127. With respect to whether this issue could be alternatively characterized as rectification of an initial overstatement of value, in accordance with IAS 8, the ATCO Utilities have confirmed with their auditors that this is not the case in this proceeding. Specifically, IAS 8 has potential applicability in the following situations:

- Changes in accounting policies.
- Changes in accounting estimates which are used by management to recognize amounts in the financial statements where precise values cannot be determined.
- Errors which are omissions or misstatements in financial statements resulting from the misuse or disregard of reliable information that was either available at the time of preparation of financial statements or could be reasonably expected to have been obtained at that time.⁴⁸

128. The ATCO Utilities noted paragraph 15 of IAS 16 provides needed context for the discussion of an initial overstatement of value:

15. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

129. The ATCO Utilities submitted that the assets were properly recorded at cost, there has been no change in accounting policy, no accounting estimates were used to record the asset

⁴⁶ Exhibit 3378-X0046, Attachment 1, pages 2-3.

⁴⁷ Exhibit 3378-X0061, ATCO Utilities reply to UCA submissions, PDF page 6.

⁴⁸ Exhibit 3378-X0056, PDF page 2.

values, and there was no error since the actual cost was used to record the asset values at the time of preparation of financial statements. Further, there is no provision for determining an alternate value of an asset under the circumstances related to the disallowed portion of IT asset cost per Decision 2014-169. The ATCO Utilities submitted that there is no initial overstatement of value due to the cost recovery disallowance of the ATCO Utilities' IT assets and IAS 8 has no applicability in the circumstances of this proceeding.⁴⁹ In the companies' view, adoption of the UCA's recommendations would be contrary to the requirements of IAS 8, 16 and 36.

130. The ATCO Utilities also submitted that concerns regarding intergenerational equity and the risk associated with the use of the PV methodology were addressed by the Commission in Decision 2010-102 and Decision 2011-485. In Decision 2010-102, the Commission stated that:

188. The Commission agrees with ATCO that its PV approach will not have a material impact on customers now or in the future. The Commission also agrees with ATCO that the proposed PV approach is practical and expedient under the circumstances. Balancing the materiality of ratepayer impact over time and the practicalities of dealing with the matter in the present circumstances, the Commission will accept ATCO's use of the PV approach ...

131. The ATCO Utilities argued that Calgary incorrectly claims that there is no penalty to shareholders resulting from the capital cost disallowance. They claim that because they have paid for the full cost of the assets in question, they will pay the discounted PV of future related revenue requirements to customers through use of the PV methodology. The ATCO Utilities argued that "clearly, the shareholders have incurred a 'penalty' equal to the discounted value of the full future revenue requirement on the disallowed portion of the IT assets. To suggest, as Calgary has done in paragraph 114, that what ATCO gives with one hand (the PV amount of \$15.1 million) it retrieves with the other (inflated revenue requirements totaling \$27.6 million) shows a complete lack of understanding of the PV methodology."⁵⁰

Views of the Commission

132. In this case, the Commission is being asked to rule on the suitability of using the PV methodology to deal with the refund of the dollars owed to ratepayers resulting from the findings in Decision 2014-169 and Decision 2014-169 (Errata). The Commission has reviewed the evidence of the UCA and is persuaded that PV is a reasonable methodology to use for the purposes of this decision.

133. The Commission considers that the ATCO Utilities' proposed PV method is consistent with the methodology approved in Decision 2010-102 and the Decision 2011-267.⁵¹ Using a PV methodology is also consistent with the requirements of audited financial statements and income tax filings which reflect concurrently generated books of account that reflect actual PP&E balances. This methodology also avoids the administrative effort and complexity involved with making annual rate base adjustments to reflect the AUC approved rates, and the need to maintain two sets of records for the life of the assets related to the disallowances from Decision

⁴⁹ Exhibit 3378-X0061, ATCO Utilities reply to UCA submissions, PDF pages 2-3.

⁵⁰ Exhibit 3378-X0069, ATCO reply argument, PDF page 9.

⁵¹ Decision 2011-267: ATCO Utilities, 2008-2009 Evergreen Application, Proceeding 1132, Applications 1607041-1 and 1607117-1, June 22, 2011.

2014-169. The Commission further considers that the proposed PV methodology will not cause intergenerational inequity because the impact on revenue requirements does not have a material effect on customer rates beyond 2014.⁵² Further, it is the submission of the UCA that for this decision, the difference between the two proposed methods (the PV method as proposed by the ATCO Utilities and the asset impairment method as proposed by the UCA) is likely to be small.⁵³ Therefore, for the reasons outlined above, the Commission finds that in this particular instance, the adjustments to rates resulting from the use of the PV method are considered by the Commission to be just, reasonable and in the public interest. There is no need for the Commission to consider the theoretical underpinnings of PV accounting raised for the first time in the argument phase of this proceeding.

Asset impairment

134. In IAS 36⁵⁴ the concept of materiality is discussed:

12 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

- (e) evidence is available of obsolescence or physical damage of an asset.
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite].
- (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

⁵² Exhibit 3378-X0001, page 7.

⁵³ Exhibit 3378-X0042, UCA-AUC-2015SEP01-004(b) which states: "Mr. Bell acknowledges the customer impacts are likely to be small in this instance"

⁵⁴ IAS Section 36 – Impairment of Assets.

Dividend from a subsidiary, joint venture or associate

- (h) for an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that:
 - (i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or
 - (ii) the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.

135. Using ATCO Electric Transmission as an example, the mid-year rate base as of December 31, 2014, is approximately \$3.0 billion. The reductions to the mid-year rate base for direct capital and other capital is approximately \$4.0 million or 0.13 per cent of the total mid-year rate base. The Commission considers that the \$4.0 million reduction is not material in this case and will, therefore, not order the adoption of an accounting treatment different from the one employed by the company. In making this determination the Commission notes that in Decision 2010-102, it also found that various adjustments to the revenue requirements of the ATCO Utilities resulting from the Benchmarking decision in the range of 0.048 per cent to 0.265 per cent were not material. These adjustments were of a similar nature and size to the adjustments being considered in this application.⁵⁵

Cash generating units

136. The UCA stated:

... capitalized IT and CC&B costs are each cash generating units that may be independently impaired to account for the Commission's disallowance of these costs.⁵⁶

137. The Commission is not convinced that IT and CC&B costs are CGUs. It considers that while work on IT projects provided by ATCO I-Tek were likely capitalized and tracked as part of the IT asset group, capitalized IT as part of overhead costs for other capital assets are spread over a number of assets. Using the example of a utility engineer working on a number of capital projects, the engineer's IT costs would be capitalized in the same manner as the engineer's salary. In such a case, both the IT costs and salary costs would be capitalized to the projects being worked on through the capital overhead mechanism. The costs would not be tracked on an individual basis.

138. Further, while the assets themselves may be identifiable, they are not independent of the cash flows generated by other assets or groups of assets. Also, if there was not a utility requirement for the assets as part of the transmission or distribution service, there would be no requirement for the IT or CC&B assets themselves. Also uncertain is the value the IT and CC&B assets would have if they were no longer required for utility service.

139. The Commission finds that the ATCO Utilities have two CGUs, as defined by IAS 36 – transmission and distribution. The audited financial statements filed as part of the 2014 Rule 005⁵⁷ filing for ATCO Electric contain two specific notes about impairment of assets:

⁵⁵ Decision 2010-102, page 52.

⁵⁶ Exhibit 3378-X0037, page 6.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses.⁵⁸

140. The financial statements for ATCO Gas contain similar wording and even specifically discuss CGUs:

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the Cash Generating Unit (CGU) level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.⁵⁹ [emphasis added]

141. The Commission considers that its determination of the current application does not require it to make specific findings regarding either the existence of CGUs or their accounting treatment. However, it notes that the ATCO Utilities' employment of the concept is consistent with their assessment of asset impairment on an annual basis. Further, if there were a requirement to write-down assets as a result of Decision 2014-169 and Decision 2014-169 (Errata), it would be noted in the financial statements because the companies' financial statements are subject to review and sign-off by an external auditor.⁶⁰ Consequently, the Commission is satisfied that the approach taken by the ATCO Utilities in this regard is reasonable and results in them being compliant with the relevant Commission directions.

Rule 026

142. In Rule 026⁶¹ the following is stated regarding asset impairment:

(m) Impairment of assets (IAS 16.63 and IAS 36)

Utilities shall maintain the existing accounting practice of having no impairment (or impairment reversal) charges included when providing or reporting financial information to the AUC.⁶²

⁵⁷ Rule 005: *Annual Reporting Requirements of Financial and Operational Results*.

⁵⁸ ATCO Electric 2014 Rule 005 filing, page 9 of the financial statements.

⁵⁹ ATCO Gas 2014 Rule 005 filing, pages 8-9 of the financial statements.

⁶⁰ Cover page of the 2014 financial statements.

⁶¹ Rule 026: *Regulatory Account Procedures Pertaining to the Implementation of the Internal Financial Reporting Standards*.

⁶² Rule 026, page 8.

143. Further, the Appendix accompanying Rule 026 stated:

- Future regulatory accounting and regulatory reporting requirements established by the Commission will be aligned as much as possible with IFRS. In establishing any future regulatory accounting and regulatory reporting requirements that deviate from IFRS, the Commission will ensure that any such deviations and their impact are in the public interest.

144. The foregoing confirms that the Commission prefers, but is not required, to adopt IFRS when possible. However, it also confirms that deviation from IFRS will be permitted where such deviations are in the public interest. The Commission finds that there is not enough evidence to suggest that deviating from IFRS and Rule 026 is required in the public interest in the circumstances of this case. Consequently, the Commission approves of the ATCO Utilities use of the PV methodology in order to calculate the refund due to ratepayers for IT costs resulting from Decision 2014-169 and Decision 2014-169 (Errata). The Commission cautions readers that its approval of the ATCO Utilities' PV methodology has been given in the specific circumstances of this case only. The use of PV approaches for these types of purposes is not Commission policy.

6 Carrying charges

Views of the parties

145. Calgary noted that the ATCO Utilities had calculated total carrying charges of \$2.609 million in connection with the payment of refunds to customers. However, Calgary had previously raised a concern with the ATCO Utilities' approach, and the use of Rule 023⁶³ in Proceeding 3407. In that proceeding, Calgary had noted a difference of \$2.75 million in carrying charges that arose in favour of customers in applying carrying costs using a weighted average cost of capital (WACC) approach versus ATCO Utilities' use of Rule 023.

146. The effect of the ATCO proposals is that ATCO was able to invest its overcharging of customers at WACC, but only has to pay back at a lesser interest rate arising from Rule 023. Calgary says that this is unfair and results in a \$2.75 million windfall to ATCO Gas's shareholders, even though the Commission determined in Decision 2014-169 that the ATCO Utilities were not prudent in negotiating charges for affiliate services.⁶⁴

147. The Commission declined to decide the issue in its determination of Proceeding 3407. As stated in Decision 2014-363:⁶⁵

75. The approximately \$2.75 million difference arising from the employment of the two identified methods of calculating carrying charges is material. The Commission is aware that a number of information requests dealing with the correct carrying charge to use for the refund have been filed by parties in Proceeding No. 3378. The Commission considers that this proceeding is not the best forum in which to decide on the correct

⁶³ Rule 023: *Rules Respecting Payment of Interest*.

⁶⁴ Exhibit 3378-X0065, Calgary argument, paragraph 150.

⁶⁵ Decision 2014-363: ATCO Gas, 2015 Annual PBR Rate Adjustment Filing, Proceeding 3407, Application 1610837-1, December 19, 2014.

carrying charge methodology or amount to use for the customer refund resulting from Decision 2014-169 and, therefore, will not make a determination in respect of that issue in this decision.⁶⁶

148. Calgary noted that in this proceeding, the ATCO Utilities had claimed that the continued use of Rule 023 was appropriate because "... The characteristics of the overall refund, whether O&M or Capital, are considered the same."⁶⁷

149. Calgary considered that relying on prior Commission directions was over-reaching in the circumstances of this proceeding.

150. Calgary argued that in Proceeding 32 it was not the case, as it is in this proceeding, that each ATCO utility owed a refund to customers for each year in question. In Proceeding 32, there was a mixture of refunds and collections from customers, depending upon the utility and the year in question. Given those circumstances, it may have been reasonable for the Commission to accept Rule 023 calculations, for no other reason than customers would not have a personal WACC to apply to the amounts that were due to an ATCO utility.

151. In Calgary's view, each of the ATCO utilities was able to invest its overcharging of customers at WACC, but would only have to pay back to customers at a lesser interest rate arising from Rule 023. Calgary considered this unfair and claimed that it resulted in a \$2.75 million windfall for ATCO Gas's shareholders alone. Its concern was that this windfall would arise for each ATCO utility, even though the Commission determined in Decision 2014-169 (Errata) that the ATCO Utilities were not prudent in negotiating charges for affiliate services.

152. The UCA stated that in UCA-AU-CONF-6(a), it had tested the basis for the ATCO Utilities' forecast interest rate for 2014 and 2015, and the ATCO Utilities indicated [REDACTED]

[REDACTED]
[REDACTED].⁶⁸

153. The UCA argued that the delay in the proceeding had made the interest rates available from the Bank of Canada for the relevant time period, [REDACTED]
[REDACTED]. The UCA requested the Commission to direct ATCO Utilities to recalculate the interest payable for the carrying costs based on the Bank of Canada rates for 2014 and 2015, on a monthly basis.⁶⁹

154. The ATCO Utilities did not agree with Calgary's attempts to revisit the subject of appropriate carrying charges by incorrectly claiming that previous determinations by the Commission on this very issue have no bearing in the current circumstances. Calgary stated that the difference between Proceeding 32 and this proceeding is that in Proceeding 32 there was a mixture of refunds to, or collections from, customers, depending upon the utility and the year in question. The ATCO Utilities pointed to Decision 2010-102, and argued that nowhere in that

⁶⁶ Decision 2014-363, paragraph 75.

⁶⁷ Exhibit 0039.01.ATCOGAS-3378, AUC-AU-2, page 2 of 3.

⁶⁸ Exhibit 3378-X0062, UCA argument, and UCA confidential argument, paragraph 46.

⁶⁹ Exhibit 3378-X0062, UCA argument, and UCA confidential argument, paragraphs 47-48.

decision does the Commission state that the approval of the Rule 023 interest rate was determined based on the mixture of customer refunds to customer collections. Rather the Commission acknowledged the need for a carrying cost mechanism similar to what the ATCO Utilities have provided.

155. The ATCO Utilities argued that Calgary's assertion that Rule 023 should only be used if the right mixture of refund and collections exists should be rejected. In AUC-AU-02 the ATCO Utilities provided further evidence where the Rule 023 interest rate was used in regards to the collection of a similar amount.

156. With respect to the UCA's issue with the carrying costs for the period 2010 to 2015 the UCA submitted that, since actual Bank of Canada interest rates are now available for the relevant time period, they should be used. The ATCO Utilities submit that the appropriate interest rate has been used and that no significant change would result from the UCA's recommendation.

157. The ATCO Utilities argued it has applied an interest rate that is consistent with past decisions, both before and after the PBR regime. The positions being advanced by interveners in this regard should be dismissed.

158. In reply, Calgary noted that the ATCO Utilities had made no submissions concerning carrying charges, even though it would have been aware from Decision 2014-363 that the issue of using WACC rates versus using Rule 023 as a guide was being moved to this proceeding for testing.⁷⁰

159. Calgary considered that the ATCO Utilities' silence on this issue in argument was not appropriate in the circumstances, or fair to Calgary, because the result is that Calgary has no ATCO Utilities submissions on the issue to respond to. Calgary submitted that the ATCO Utilities' reply to the UCA and Calgary should be disregarded.

Views of the Commission

160. The Commission considers that while Rule 023 has been used extensively in the past to determine carrying charges, the use of WACC to make such determinations is not otherwise precluded in this case.

161. The Commission also notes that the ATCO Utilities did not present their position on the use of Rule 023 versus WACC in their application notwithstanding the fact the issue was to be reviewed in this proceeding.

162. In the present case, final approved pricing was applied to both O&M and capital projects and the resulting adjustments by the ATCO Utilities were all in the form of refunds to customers. Consequently, the use of WACC to determine carrying costs would not be unreasonable in the circumstances. Calgary's argument that the ATCO Utilities had earned a return on projects incorporating MSA pricing prior to their approval or adjustment in Decision 2014-169 (Errata) is also of some merit.

⁷⁰ See Exhibit 3378-X0065, Calgary argument, paragraphs 141-142 and Decision 2014-363, paragraph 75.

163. The Commission is satisfied that in these specific circumstances, the ATCO Utilities' use of WACC to calculate the carrying charges is acceptable. Accordingly, the ATCO Utilities are directed to calculate these amounts using WACC.

7 Payment of refunds

7.1 PBR companies

164. Calgary noted that partial payouts of refunds to customers in connection with the orders in Decision 2014-169 had been made by ATCO Gas and ATCO Electric Distribution through riders used in late 2014, and approved by the Commission in connection with each of these utilities' 2015 annual rates filing under PBR.

165. ATCO Gas's payout was conducted by way of a Rider S adjustment for a forecast refund of \$25.547 million approved in Decision 2014-296 for the months of November and December 2014.

166. The payout of ATCO Electric Distribution was carried out by way of setting off the refund amount of \$13.781 million against K factor amounts (capital investments handled outside the I-X mechanism) to be otherwise collected from customers. This set-off was effected through new rate schedules.

167. Calgary understood that the rider or rate adjustments used in each case included a variable based component, based upon load or consumption, but that, to date, there had been no reconciliation by each ATCO utility of the actual amounts paid out.

168. Calgary recommended that each of ATCO Gas and ATCO Electric Distribution be directed to file the following information in its compliance filing arising from this proceeding:

- Total volumes (forecast and actual) by Customer Class by Month for November and December 2014; and
- Full particulars and details supporting the calculation of the Rider "S" discounts approved in Decision 2014-296 for ATCO Gas and the Appendix 2 Rates Schedules in Decision 2014-295; and
- A reconciliation of the forecasted payments to Customers with the actual amounts paid through the application of Rider "S" to Customer charges for ATCO Gas, and the rates applies by ATCO Electric Distribution.⁷¹

169. Calgary argued that following such reconciliation, ATCO Gas and ATCO Electric Distribution could apply any under or overpayment of the 2014 amounts to any further balances due to customers arising from the Commission's decision in this proceeding.

⁷¹ Exhibit 3378-X0065, Calgary argument, paragraph 156.

170. The ATCO Utilities argued that this matter was addressed in ATCO Gas's reply argument in the 2016 PBR rates application (Proceeding 20820), set out below:

21. Calgary submits that the Commission should direct ATCO Gas to conduct a reconciliation between actual and forecast amounts related to the refund made to customers as a result of Decision 2014-296 for the periods November and December of 2014. ATCO Gas notes that both the UCA and CCA take no position on this matter.
22. The approved amount in Decision 2014-296 was \$25.547 million. Calgary claims that gas consumption -- which varies -- is directly tied to total customer charges, which in turn dictates the actual amount of the refund that would have been distributed to customers during the time period. Calgary further goes on to say consumption could have varied based upon at least two factors which to Calgary are obvious: weather and economic activity.
23. ATCO Gas submits that similar to other refunds and collections, a true-up between the forecast rate and the actual rate is not warranted. As noted above, Calgary outlines two reasons as to why the consumption could vary. The first is weather. ATCO Gas notes that any impacts due to fluctuations in weather outside of the normal are included in the Weather Deferral Account that was established in Decision 2008-113. Thus, in the event that Gas over-refunded or under-refunded related to weather, the difference would be captured in the Weather Deferral Account and refunded/collected through the Rider W process.
24. The second item that Calgary outlined that would cause fluctuation in consumption is the economic activity. ATCO Gas states that under the current PBR framework the difference between actual billing determinants and forecast billing determinants are not true-up. This is outlined in Decision 2012-237:

“144. Regarding the issue of a true-up to the actual number of customers, as proposed by ATCO Gas, the Commission notes that the focus of the PBR plans proposed by the gas distribution companies in this proceeding is on indexing the revenue per customer for each customer class, not the overall revenue of a company. Accordingly, the correct measure to true up, if any, is the forecast use per customer.

145. In the interest of regulatory efficiency, the Commission considers that no true up for the actual weather normalized use per customer is required. The Commission directs the gas companies to use the actual average change in weather normalized use per customer (per class) for the preceding three years as their forecast percentage change in weather normalized use per customer for the upcoming year. This percentage change is to be applied to weather normalized use per customer (actual and projected per class) for the current year to determine the forecast for the upcoming year. The Commission is satisfied that the rate of change in weather normalized use per customer over the preceding three year period will result in a reasonable forecast of weather normalized use per customer for the upcoming year.”

171. As approved in Decision 2014-169, ATCO Gas has refunded \$25.547 million. On September 10, 2015, ATCO Gas also filed its annual PBR rates application, which includes the remaining refund to customers, as a one-time Y factor adjustment (other types of charges beyond the control of the company and not reflected in the inflation factor) in Section 3.4.3 of that application.

172. ATCO Electric Distribution has refunded \$13.791 million as approved in Decision 2014-169. On September 10, 2015, ATCO Electric Distribution filed its annual PBR rates application, which includes the remaining refund to customers as a one-time Y factor adjustment, in accordance with Section 3.4.iii of that application.

173. On this basis, the ATCO Utilities argued that Calgary's recommendation of a reconciliation is unfounded and unsupported and is not in line with the approach required to be utilized by the PBR companies, as established in Decision 2012-237.

7.2 ATCO Pipelines and ATCO Electric Transmission

174. Calgary noted that as of the date of argument neither utility had provided information on how it proposes to pay out the refund to customers other than as provided in the application as follows:

3. ATCO Electric – Transmission: The customer impact of this Compliance Filing will be refunded to Alberta Electric System Operator (AESO) [sic] subsequent to the AUC issuing a decision in this proceeding.

4. ATCO Pipelines: The customer impact of this Compliance Filing will be incorporated into the true up of deferral accounts **in the next General Rate Application.**⁷² [emphasis added by Calgary]

175. Calgary submitted that each of the two ATCO transmission utilities should be directed to file specific proposals in their respective compliance filings on the payment of refund, including the following:

- ATCO Pipelines should specify the refund (including carrying charges) that will be remitted to NGTL [NOVA Gas Transmission Ltd.] by way a refund Rider. Calgary understands that, as part of the settlement(s) that NGTL has entered into that the AP, costs are a flow through item, as defined in the settlement. It does not appear that the integration agreement and subsequent settlements provided for a method that AP could refund to its customers, including ATCO Gas, the overpayments made to I-Tek.
- ATCO Electric (Transmission) should specify the refund amounts, together with carrying charges, by way of Riders to its tariffs issued to the AESO.⁷³

⁷² Exhibit 3378-X0065, Calgary argument, paragraph 158.

⁷³ Exhibit 3378-X0065, Calgary confidential argument, paragraph 160.

176. The ATCO Utilities considered that Calgary's recommendation is an inefficient manner in which to proceed. For 2010-2012, ATCO Electric Transmission will address this matter in its compliance filing to the 2015-2017 GTA.

177. Calgary argues that ATCO Pipelines and ATCO Electric Transmission have overstated their opening 2014 rate bases and that ATCO Gas has overstated its 2013 rate base. However, the ATCO Utilities pointed out that for 2013-2014, ATCO Electric Transmission and ATCO Pipelines are proposing the use of a one-time net present value payment for the true-up of 2013 and 2014 direct and indirect IT capital balances to be included in the ATCO Electric Transmission 2013-2014 deferral account application and in the ATCO Pipelines 2015-2016 GRA compliance filing. Therefore, they state that there are no required adjustments to the rate bases of the ATCO Utilities for purposes of this compliance application.

7.3 Views of the Commission

178. The Commission accepts the ATCO Utilities' explanation that both ATCO Electric Transmission and ATCO Pipelines have each proposed a one-time net present value method to calculate and reconcile the capital balances. ATCO Electric's deferral account application and ATCO Pipelines' GRA are satisfactory vehicles to accomplish the true-up. In ATCO Pipelines' case it will be helpful for it to provide, in its compliance filing to the current GRA, the determination of the refund and assurances that the integration agreement with NGTL is not a barrier to giving a refund to customers, including ATCO Gas. The Commission directs ATCO Pipelines to comply accordingly.

8 IT rates for 2015

179. According to Calgary, the Commission tested the IT prices for 2015 as part of Proceeding 240 and had made decisions on those prices in Decision 2014-169 (Errata). As such, Calgary argued that the 2015 prices for IT for ATCO Pipelines and ATCO Electric Transmission must be no higher than those approved or resulting from Decision 2014-169 (Errata).

180. Calgary submitted that both ATCO utilities be required to update its schedules to include the prices for 2015 from Decision 2014-169 and all schedules and tables which are affected by the inclusion of the prices for 2015.

181. The ATCO Utilities pointed out that Calgary appears to be suggesting that the Commission ignore the fact that both ATCO Pipelines and ATCO Electric Transmission have "properly and appropriately" filed their respective GRA and GTA applications that cover the 2015 year and are seeking approval of the full revenue requirement for that period, as they are entitled to do, including the costs related to the provision of IT services.

Views of the Commission

182. The Commission considers that the determination of IT rates (prices) for 2015 is the subject of Proceeding 20514, the ATCO Utilities IT common matters proceeding, which is ongoing. Consequently, the Commission does not approve these amounts in this proceeding.

9 New services

183. During the course of the workshop process, Calgary became aware of several IT services which were only introduced or provided to the ATCO Utilities after the 2010 base year.

184. Calgary observed that in Decision 2014-169 (Errata) the Commission made findings and ordered adjustments to base year (2010) prices only, as identified in tables 10 and 11. Any adjustments to MSA prices for periods after 2010 were to be carried out by way of glide path adjustments.

185. Calgary recommended that the adjustment to be applied to the rate for the new service should be calculated as if the rate first came into place in 2010, with a resultant glide path applied for each year after.

186. While Calgary appears to acknowledge that the ATCO Utilities' filings in this regard align with the Commission's ordered adjustments, it recommends that the adjustments be calculated as if the rate first came into place in 2010. The ATCO Utilities reject this suggestion, because it would have rates somehow applied to non-existent services during a period when they were not provided to the ATCO Utilities. The rates have been appropriately applied to the actual services provided.

Views of the Commission

187. The Commission agrees with the ATCO Utilities that it was correct to have included costs and expenses in the year incurred, not those from previous years. It would not be reasonable to use the prior year's pricing. No further action is required.

10 Order

188. It is hereby ordered that:

- (1) The ATCO Utilities have complied with directions provided in Decision 2014-169 and Decision 2014-169 (Errata).
- (2) The ATCO Utilities are to provide evidence of a reconciliation of the true-up amounts as part of its next annual filings for PBR utilities and as part on its next annual adjustment filings for the cost of service utilities.
- (3) The ATCO Utilities will use the weighted average cost of capital in determining carrying charges for any of the placeholder amounts determined in Decision 2014-169, Decision 2014-169 (Errata) and this decision.

Dated on March 4, 2016.

Alberta Utilities Commission

(original signed by)

Willie Grieve, QC
Chair

(original signed by)

Bill Lyttle
Commission Member

(original signed by)

Anne Michaud
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.) Bennett Jones LLP
The City of Calgary McLennan Ross Barristers & Solicitors
Office of the Utilities Consumer Advocate (UCA) Bull, Housser and Tupper LLP

Alberta Utilities Commission
Commission panel
W. Grieve, QC, Chair
B. Lyttle, Commission Member
A. Michaud, Commission Member
Commission staff
R. Finn (Commission counsel)
D. Ward
C. Burt
R. Armstrong, P.Eng.
B. Whyte
M. McJannet

Appendix 2 – Summary of Commission directions

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

1. The Commission directs the ATCO Utilities to file the actual IT and CC&B costs collected in revenues from customers in 2010 for consideration in a true-up as either a part of their next annual PBR rates adjustment filing or, alternatively, as part of any annual filing of adjustments for the affected cost-of-service utilities. The true-up will provide a reconciliation of the refunds to customers stemming from Decision 2014-169 (Errata) and from this compliance application decision. If costs recovered from customers are higher than approved in tables 10 and 11 (plus adjustments for carrying costs), these amounts will be refunded. Paragraph 81
2. The Commission is satisfied that in these specific circumstances, the ATCO Utilities’ use of WACC to calculate the carrying charges is acceptable. Accordingly, the ATCO Utilities are directed to calculate these amounts using WACC. Paragraph 163
3. The Commission accepts the ATCO Utilities’ explanation that both ATCO Electric Transmission and ATCO Pipelines have each proposed a one-time net present value method to calculate and reconcile the capital balances. ATCO Electric’s deferral account application and ATCO Pipelines’ GRA are satisfactory vehicles to accomplish the true-up. In ATCO Pipelines’ case it will be helpful for it to provide, in its compliance filing to the current GRA, the determination of the refund and assurances that the integration agreement with NGTL is not a barrier to giving a refund to customers, including ATCO Gas. The Commission directs ATCO Pipelines to comply accordingly. Paragraph 178