



ATCO Pipelines

2016 Interim Revenue Requirement

April 25, 2016



Alberta Utilities Commission

Decision 21328-D01-2016

ATCO Pipelines

2016 Interim Revenue Requirement

Proceeding 21328

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1 Introduction

1. ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., filed an application (the application) with the Alberta Utilities Commission on February 11, 2016, requesting approval of a monthly fixed fee, on an interim basis, of 60 per cent of its forecast 2016 revenue requirement, effective April 1, 2016. On March 31, 2016, the requested interim revenue requirement was updated in response to information requests (IRs). The updated revenue requirement was provided to reflect an estimated compliance amount due to the Commission's findings from Decision 3577-D01-2016¹ for ATCO Pipelines 2015-2016 general rate application (GRA), issued on February 29, 2016.

2. The Commission issued a notice of application on February 11, 2016, which advised interested parties who had concerns or objections regarding the application, or who wished to support the application, to file a submission with the Commission by February 26, 2016. In response to the notice of application, submissions were filed by the following parties:

- Canadian Association of Petroleum Producers
- Consumers' Coalition of Alberta (CCA)

3. The Canadian Association of Petroleum Producers indicated that the reasonableness of ATCO Pipelines' interim rates is at issue but that it had no opinion on whether further process was required.² The CCA requested the opportunity to file IRs before commenting on whether it objected to the application and before commenting on the need for further process.³

4. In a letter dated March 3, 2016,⁴ the Commission determined that the application would be handled by way of a basic written proceeding and set the following process schedule for the application:

Process step	Deadline
ATCO Pipelines submission regarding changes or amendments to the application	March 7, 2016 – 4 p.m.
IRs to ATCO Pipelines	March 18, 2016 – 4 p.m.
ATCO Pipelines IR responses	March 31, 2016 – 4 p.m.
Submission from the CCA advising if it requires process for argument and reply argument	April 8, 2016 – 4 p.m.

¹ Decision 3577-D01-2016: ATCO Pipelines 2015-2016 General Rate Application, Proceeding 3577, Application 1611077-1, February 29, 2016.

² Exhibit 21328-X0006.

³ Exhibit 21328-X0007.

⁴ Exhibit 21328-X0008.

5. The CCA did not request additional process for argument and reply.⁵
6. The Commission considers the close of record for this proceeding to be April 8, 2016.
7. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of the referenced proceeding. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

2 Background

8. ATCO Pipelines filed its 2015-2016 GRA on December 15, 2014.⁶ The decision on that application was released on February 29, 2016, as Decision 3577-D01-2016. In a June 22, 2015 update of its GRA, ATCO Pipelines sought approval of its forecast revenue requirements for 2015 and 2016, in the amounts of \$210,233,000 and \$245,472,000, respectively.⁷
9. On April 14, 2016, ATCO Pipelines submitted an application for approval of its compliance with directions set out in Decision 3577-D01-2016. In that application, the applied-for revenue requirements for 2015 and 2016 were \$208,940,000 and \$238,844,000 respectively.⁸
10. ATCO Pipelines' 2015 interim revenue requirement of \$205,893,600 was approved in Decision 3586-D01-2015.⁹ Under that interim rate, ATCO Pipelines collected a monthly fixed fee of \$17,157,800, effective April 1, 2015.¹⁰
11. In the current application, ATCO Pipelines requested approval of a monthly fixed fee, on an interim basis, of \$19,021,720¹¹ per month. The application requested an interim revenue requirement that reflected 60 per cent of the increase between the approved 2015 interim revenue requirement and the applied-for 2016 revenue requirement. The year-over-year requested increase was \$22.4 million from the approved 2015 interim revenue requirement, or an increase of 11 per cent.¹²
12. In response to a CCA IR, ATCO Pipelines revised its interim revenue requirement application amount, requesting 100 per cent of the estimated 2016 compliance filing revenue requirement of \$239,023,000. This resulted in an updated monthly fixed fee of \$19,918,583. This

⁵ Exhibit 21328-X0012.

⁶ ATCO Pipelines 2015-2016 GRA, Proceeding 3577, Application 1611077-1.

⁷ Proceeding 3577, Exhibit 3577-X0179, PDF page 1, line 29.

⁸ Proceeding 21515, Exhibit 21515-X0006, PDF page 4.

⁹ Decision 3586-D01-2015: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., 2015 Interim Revenue Requirement, Proceeding 3586, Application 1611091-1, March 24, 2015.

¹⁰ Exhibit 21328-X0001, PDF page 2, line 25.

¹¹ Exhibit 21328-X0001, PDF page 7, lines 19-20. This monthly fixed fee is before the removal of franchise taxes (Rider A).

¹² Exhibit 21328-X0001, PDF page 7. The 2016 applied-for revenue requirement was \$245,472,000, as updated in ATCO Pipelines' 2015-2016 GRA (Proceeding 3577) plus a reduction of \$2.3 million for long-term debt interest rates, which was identified in the oral hearing. The applied-for 2016 interim revenue requirement reflects 60 per cent of the total amount and is \$228,260,640.

is a year-over-year increase of \$33.1 million from the approved 2015 interim revenue requirement, or an increase of 16.1 per cent.¹³

3 Discussion of issues

13. In consideration of the Commission's Decision 3586-D01-2015, which approved 60 per cent of ATCO Pipelines' 2015 interim revenue requirement, ATCO Pipelines requested that 60 per cent of its 2016 revenue requirement increase be approved on an interim basis. ATCO Pipelines submitted that the findings from Decision 3586-D01-2015 would apply equally to this application.¹⁴

14. In response to a Commission letter where ATCO Pipelines was requested to provide an update to this application as a result of Decision 3577-D01-2016, on March 7, 2016, ATCO Pipelines advised that its 2016 interim revenue requirement was still required and that no amendments to the application were necessary. ATCO Pipelines commented that its requested implementation date of a 2016 interim monthly rate was April 1, 2016, which was no longer feasible under the current process schedule and as a result, it requested that the shorter recovery period in 2016 be considered in the percentage of the total interim revenue requirement increase to be approved by the Commission.¹⁵

15. ATCO Pipelines updated its position in response to IRs where it confirmed that it is now requesting approval of the estimated compliance filing amount provided in response to the CCA's IRs, and not the 60 per cent of the applied-for revenue requirement increase as originally submitted in the application. ATCO Pipelines indicated that "This should promote rate stability by minimizing any adjustments following the compliance filing proceeding."¹⁶

3.1 Quantum, need and public interest factors

16. ATCO Pipelines indicated that the compliance filing on the GRA decision is not expected until mid-2016 and that the 2016 revenue requirement increase is significant, and therefore an adjustment to the interim rate for 2016 is warranted.¹⁷ ATCO Pipelines acknowledged that the entire 2015 approved interim amount would be collected by March 31, 2016, but noted that the approved interim amount does not include the remaining revenue requirement shortfall for 2015 or any increases to the revenue requirement for 2016.¹⁸ ATCO Pipelines submitted that the requested revenue requirement increase is required to support its capital and operating and maintenance programs and thereby ensure its continued ability to provide safe and reliable utility service. In ATCO Pipelines' view, its request for an interim revenue requirement meets the quantum, need and public interest criteria.¹⁹

3.1.1 Effect of Decision 3577-D01-2016

17. In response to a CCA IR, ATCO Pipelines provided a schedule which broke out the effects of Decision 3577-D01-2016 by direction and the resultant total estimated revenue

¹³ Exhibit 21328-X0011, AP-CCA-2016March18-002(d), PDF pages 6-7.

¹⁴ Exhibit 21238-X0001, PDF page 6.

¹⁵ Exhibit 21238-X0009, PDF pages 1-2.

¹⁶ Exhibit 21238-X0011, IR responses cover page, PDF page 1.

¹⁷ Exhibit 21238-X0001, PDF page 6.

¹⁸ Exhibit 21328-X0011, AP-CCA-2016March18-002(b), PDF page 5.

¹⁹ Exhibit 21238-X0001, PDF pages 6-7.

requirements for 2015 and 2016. The original 2016 forecast of \$250,362,000 was updated to \$245,472,000 during the course of Proceeding 3577, and the compliance filing revenue requirement was estimated to be \$239,023,000.²⁰ ATCO Pipelines submitted that it would be more appropriate for 100 per cent of the estimated 2016 compliance filing amount to be approved on an interim refundable basis, instead of the original applied-for amount of 60 per cent of the 2016 revenue requirement.²¹

18. In the CCA's letter dated April 8, 2016, it submitted that, given the response from ATCO Pipelines to the IR where it adjusted the applied-for 2016 interim revenue requirement to the 2016 forecast compliance filing revenue requirement, it would be appropriate to award an interim rate at the level requested by ATCO Pipelines in its amended application. Subject to verification of certain assumptions made in the IR response, the CCA considered an estimate based on the GRA decision to be preferable to an estimate based on a percentage of the original GRA which contained contentious cost items.²²

3.1.2 Rate stability, rate shock and intergenerational equity

19. ATCO Pipelines submitted that its revised requested interim rate, which is based on its estimated 2016 compliance filing revenue requirement, would minimize any adjustment to its rates following the compliance filing process and better promote rate stability. ATCO Pipelines noted that a final adjustment would still be required once final rates are put in place to account for any shortfall, or over-collection, in both 2015 and 2016.²³

4 Commission findings

20. When evaluating the merits of an interim rate increase application, the Commission must weigh the potential benefits of rate stability, minimization of rate shock and intergenerational inequity against the costs that underpin the interim revenue requirement. With respect to the costs, the Commission must consider whether any of the cost items are contentious, the impact any revenue requirement variance would have on the financial welfare of the utility, and any potential impact on safe utility operations. The Commission evaluates the need for interim rate increases considering the factors provided in Decision 2010-038,²⁴ which can be divided into two categories: factors that related to the quantum of, and need for, the increase; and public interest factors. Decision 2010-038 stated:

25. The Commission, when evaluating the 'quantum and need' factors, will take into account the specifics of the requested rate increase, which may include some or all of the following:

- The identified revenue deficiency should be probable and material
- All or some portion of any contentious items may be excluded from the amount collected

²⁰ Exhibit 21238-X0011, AP-CCA-2016March18-001 Attachment, PDF pages 3-4.

²¹ Exhibit 21238-X0011, AP-CCA-2016March18-002(d), PDF page 6.

²² Exhibit 21328-X0012, PDF page 2.

²³ Exhibit 21328-X0011, AP-CCA-2016March18-002(d), PDF page 7.

²⁴ Decision 2010-038: ATCO Pipelines, 2010 Interim Revenue Requirement and 2010 Interim Rates, Proceeding 424, Application 1605719-1, January 22, 2010.

- Is the increase required to preserve the financial integrity of the applicant or to avoid financial hardship to the applicant?
- Can the applicant continue safe utility operations without the interim adjustment?²⁵ [footnotes removed]

21. With respect to quantum and need factors, the projected year-over-year increase was calculated by ATCO Pipelines to be \$33.1 million. The Commission finds that at least some portion of the requested revenue requirement increase is probable and material.

22. An interim rate increase application is intended to ensure that a utility can continue its operations without financial harm or a negative impact on the safety and reliability of service to customers, until such time as the GRA has been decided. The proceeding for ATCO Pipelines' GRA compliance filing is currently before the Commission, and therefore, approval of interim rates will be in place only while the GRA compliance filing is outstanding. The Commission considers that the interim revenue requirement approved in this decision will allow for financial integrity of the applicant and the recovery of interim rates, while continuing safe and reliable service to customers.

23. With respect to public interest factors, Decision 2010-038 described these factors, as follows:

28. The Commission, having determined that the requested rate increase meets the 'quantum and need' factors, must then assess the rate increase in light of certain 'public interest' factors for which "different weighting depending on the specific circumstances surrounding each application may be given" and which include

- Interim rates should promote rate stability and ease rate shock
- Interim adjustments should help to maintain intergenerational equity
- Can interim rate increases be avoided through the use of carrying costs
- Interim rate increases may be required to provide appropriate price signals to customers
- It may be appropriate to apply the interim rider on an across-the-board basis.²⁶ [footnotes removed]

24. With respect to the amount of the increase in its revenue requirement, ATCO Pipelines noted that its revenue requirement is incorporated into NOVA Gas Transmission Ltd.'s (NGTL's) revenue requirement because of the terms of integration between the two systems.²⁷ ATCO Pipelines stated that the interim revenue requirement increase would promote rate stability. The Commission is mindful that the impact of the revenue requirement increase, in terms of rate shock and intergenerational inequity, is not easily determined because ATCO Pipelines' revenue requirement is incorporated into NGTL's revenue requirement and is only a portion of NGTL's total revenue requirement.

25. The CCA recommended that interim rates be based on the amounts ATCO Pipelines calculated using its 2016 forecast compliance filing revenue requirement, but cautioned that the underlying assumptions and source calculations of ATCO Pipelines' estimated compliance filing revenue requirement were not provided and would be useful to confirm that ATCO Pipelines is

²⁵ Decision 2010-038, paragraph 25.

²⁶ Decision 2010-038, paragraph 28.

²⁷ Exhibit 21328-X0001, PDF page 2.

in compliance with Commission directions. The Commission is mindful that the ongoing compliance filing may result in additional directions to ATCO Pipelines and therefore, the estimated compliance filing revenue requirement amounts may not be approved as filed. In this circumstance however, the Commission agrees that the forecast compliance filing revenue requirement is preferred to the interim revenue requirement amounts requested in the original application because the forecast compliance filing revenue requirement includes the most up-to-date information, and therefore, will more closely approximate final rates for 2016. This is preferable to using an approved percentage of the original applied-for revenue requirement. This approach ensures that ATCO Pipelines will have sufficient funds to provide safe and reliable utility service.

26. In order for ATCO Pipelines' interim rates to reflect the ongoing 2015-2016 GRA compliance filing, and recognizing that the amended interim revenue requirement source calculations and assumptions were not provided in this application and that the amended applied-for rates do not match the amounts provided in the compliance filing application, for the reasons set out above, the Commission approves 100 per cent of the monthly fixed fee requested by ATCO Pipelines. The Commission approves an interim revenue requirement of \$19,918,583 per month before the removal of franchise taxes collected through Rider A. The interim revenue requirement is to be collected over the remaining eight months of 2016. The Commission recognizes that ATCO Pipelines will have collected \$17,157,800 per month based on the 2015 interim rate between January and April 2016, and as a result, the approved increase will not fully recover the \$33.1 million shortfall forecast by ATCO Pipelines for 2016. Due to this under-collection in the first four months of 2016, the Commission finds it reasonable to approve 100 per cent of the 2016 amended interim monthly rate, effective May 1, 2016.

27. The approved amount is subject to further adjustments as a result of testing of the revenue requirement amounts in the compliance filing proceeding. The approved interim rate of \$19,918,583 per month will remain in effect until such time it is varied by a new interim rate or final rate that is approved by the Commission.

5 Order

28. It is hereby ordered that:

- (1) ATCO Pipelines' 2016 interim revenue requirement is approved in the amount of \$19,918,583, before the removal of franchise taxes collected through Rider A, and will be collected monthly, effective May 1, 2016.

Dated on April 25, 2016.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
ATCO Pipelines Bennett Jones LLP
Canadian Association of Petroleum Producers
Consumers' Coalition of Alberta (CCA)

Alberta Utilities Commission
Commission panel N. Jamieson, Commission Member
Commission staff A. Sabo (Commission counsel) M. Kopp-van Egteren M. McJannet

Appendix 2 – 2016 interim revenue requirement rate schedule**Effective May 1, 2016****ATCO PIPELINES
2016 INTERIM REVENUE REQUIREMENT
RATE SCHEDULE****AVAILABLE**

To ATCO Pipelines

APPLICABLE

To ATCO Pipelines for collection from NOVA Gas Transmission Ltd., as per the terms of integration between the two systems

RATE

Effective May 1, 2016, the interim revenue requirement shall be:

Monthly Charge: \$19,918,583