Decision **22058-D01-2016**

AUC
Alberta Utilities Commission

ATCO Pipelines

2015-2016 Revenue Requirements Second Compliance Filing to Decision 3577-D01-2016

November 28, 2016

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1 Introduction

1. On December 15, 2014, ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., filed an application with the Alberta Utilities Commission requesting approval of its 2015-2016 general rate application (GRA). On February 29, 2016, the Commission issued Decision 3577-D01-2016.[1]

2. On April 14, 2016, ATCO Pipelines filed an application with the Commission requesting approval for its compliance filing to Decision 3577-D01-2016. On September 13, 2016, the Commission issued Decision 21515-D01-2016.[2] In Decision 21515-D01-2016, ATCO Pipelines was directed to refile its 2015-2016 GRA to reflect the findings and directions therein, on or before October 6, 2016.[3]

3. On October 6, 2016, ATCO Pipelines filed its second compliance filing of its 2015-2016 GRA arising from Decision 21515-D01-2016. In the current application, ATCO Pipelines is requesting approval of its final revenue requirements of $208,865,000 and $237,968,000 for 2015 and 2016, respectively, and a revised deferral account settlement of $11,449,000.

4. On October 11, 2016, the Commission issued notice of the application and requested parties who intended to participate in the proceeding to file their statements of intent to participate (SIPs) on or before October 25, 2016. No SIPs were filed in response to the Commission's notice. Therefore, the Commission considers the record for this proceeding to have been closed on October 25, 2016.

5. In reaching the determinations set out within this decision the Commission has considered all relevant materials comprising the record of this proceeding. References in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to this matter.

[1] Decision 3577-D01-2016: ATCO Pipelines, 2015-2016 General Rate Application, Proceeding 3577, Application 1611077-1, February 29, 2016.
[2] Decision 21515-D01-2016: ATCO Pipelines Ltd., 2015-2016 Revenue Requirements Compliance Filing to Decision 3577-D01-2016, Proceeding 21515, September 13, 2016.
[3] Decision 21515-D01-2016, paragraph 135.

2 Details of the application

6. The table below compares ATCO Pipelines' revenue requirements for 2015 and 2016 as filed in the 2015-2016 GRA, to those of the compliance filing and the second compliance filing:

Table 1. ATCO Pipelines 2015-2016 revenue requirements[4]

	2015			2016		
	Application	**Compliance filing**	**Second compliance filing**	**Application**	**Compliance filing**	**Second compliance filing**
	($000)					
Mid-year rate base	1,143,862	1,140,375	1,140,233	1,404,571	1,388,725	1,387,646
Rate of return	6.43%	6.37%	6.37%	6.43%	6.26%	6.26%
Return on rate base	73,568	72,592	72,581	90,325	86,871	86,803
Operations and maintenance	64,682	63,199	63,142	70,086	67,103	66,342
Taxes other than income	14,939	14,939	14,939	15,867	15,867	15,867
Net depreciation expense	57,650	57,604	57,597	67,261	66,519	66,469
Income taxes	(548)	663	663	1,991	2,541	2,544
Total utility revenue requirement	210,291	208,997	208,922	245,530	238,901	238,025
Less: non-utility revenue requirement	58	57	57	58	57	57
Utility revenue requirement	**210,233**	**208,940**	**208,865**	**245,472**	**238,844**	**237,968**

7. In the first compliance filing, ATCO Pipelines included the settlement of a refund as a result of the Commission's decision on Evergreen II in the revised deferral account balances.[5] The refund amount was revised in this application as a result of the Commission's findings in Decision 21515-D01-2016 which directed ATCO Pipelines to recalculate all Evergreen II related carrying charges.[6] The table below shows ATCO Pipelines' revised deferral account settlements, including the revised Evergreen II refund:

4 Decision 21515-D01-2016, Table 1, PDF page 6 and Exhibit 22058-X0007, PDF page 3.

5 Decision 3378-D01-2016: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.), Evergreen II Application, Compliance Filing to Decision 2014-169 (Errata), Proceeding 3378, March 4, 2016.

6 Decision 21515-D01-2016, paragraph 133. For further discussion, see Section 3.6 of this decision.

Table 2. Revised requested deferral account settlement[7]

Approved in Decision 21515-D01-2016	Requested settlement ($000)
2013-2014 pension funding deferral	(419)
Negotiated settlement pension funding deferral	(309)
Variable pay program deferral	(2,371)
Debenture rate deferral	20
Growth projects deferral	249
UPR deferral	(688)
AUC operating fees	581
Reserve for hearing costs	733
2013 generic cost of capital	(3,688)
Updated per Commission Direction 6	
Evergreen II	(5,557)
Requested settlement	**(11,449)**

8. The approved placeholders were identified in ATCO Pipelines' revised first compliance filing. In the decision to that application, the Commission found that ATCO Pipelines had correctly updated its placeholders.[8] These placeholders are subject to this decision and ATCO Pipelines' revenue requirements are subject to true-up upon finalisation of these placeholder amounts.

9. In this compliance application, ATCO Pipelines is proposing to settle its deferral account balance as a one-time adjustment to its monthly revenue requirement.[9]

10. ATCO Pipelines' responses to directions from Decision 21515-D01-2016 and corresponding adjustments to its forecast 2015 and 2016 revenue requirements are discussed in Section 3 of this decision.

11. For convenience, the Commission's directions in Decision 21515-D01-2016 that pertain to this compliance filing are attached as Appendix 2 to this decision. The directions from Decision 3577-D01-2016 which remain outstanding and are intended to be considered in future applications are listed in Appendix 3 and are not addressed further in this decision.

3 Compliance with Commission directions from Decision 21515-D01-2016

12. In Decision 21515-D01-2016, the Commission issued six directions. In its second compliance filing, ATCO Pipelines responded to each of these directions. The Commission has reviewed ATCO Pipelines' responses pertaining to these directions, and finds that ATCO Pipelines' responses comply with these directions, as discussed further below.

7 Exhibit 22058-X0007, PDF page 12.
8 Decision 21515-D01-2016, paragraph 116.
9 Exhibit 21515-X0006, PDF page 25.

3.1 Direction 1

13. In Decision 21515-D01-2016, Direction 1, the Commission stated:

> 33. ATCO Pipelines is directed in its second compliance filing to apply the 10 per cent reduction to its forecast improvement and replacement capital expenditures in 2015 and 2016, incorporating the findings in the previous paragraphs.[10]

14. ATCO Pipelines provided the following response to the direction:

> As directed by the Commission, AP [ATCO Pipelines] has reduced all Replacement & Improvements capital expenditures by 10 per cent, excluding House Mountain and NGTL [NOVA Gas Transmission Ltd.] Asset Swap as directed in Decision 21515-D01-2016. In Compliance Filing II, AP has reduced capital expenditures by $949,000 in 2015 and $839,000 in 2016.[11]

Commission findings

15. ATCO Pipelines has revised its forecast capital expenditures and mid-year rate base for the test period, resulting in a reduction to revenue requirements in 2015 and 2016, of $17,000 and $111,000 respectively.[12] The Commission is satisfied that ATCO Pipelines' adjustments provided in its second compliance filing are consistent with the direction to reduce capital expenditure forecasts by 10 per cent. The Commission finds that ATCO Pipelines has complied with this direction.

3.2 Direction 2

16. In Decision 21515-D01-2016, Direction 2, the Commission stated:

> 54. In its review of ATCO Pipelines' adjustments to revenue requirements associated with Direction 8, the Commission noticed that Attachment A of the compliance filing shows income taxes of $213,000 in 2015 and $576,000 in 2016 which offset reductions to revenue requirements related to the disallowed IT projects. The Commission directs ATCO Pipelines to provide the income tax calculations related to Direction 8 as recorded in Attachment A, in its second compliance filing.[13]

17. ATCO Pipelines provided the following response to the direction:

> As directed by the Commission, AP has provided the calculation of the $213,000 in 2015 and $576,000 in 2016 relating to Direction 8 below. The majority of the tax impact is attributable to the removal of disallowed IT projects and the resulting reduction in CCA claim, partially offset by depreciation.[14]

Commission findings

18. The Commission has reviewed the income tax adjustment calculation provided in the table submitted in response to Direction 2 as well as the explanation provided by ATCO Pipelines and finds that ATCO Pipelines has complied with this direction. The Commission

[10] Decision 21515-D01-2016, paragraph 33.
[11] Exhibit 22058-X0007, PDF page 4.
[12] Exhibit 22058-X0002.
[13] Decision 21515-D01-2016, paragraph 54.
[14] Exhibit 22058-X0007, PDF page 5.

accepts ATCO Pipelines' adjustments to its revenue requirements, in order for it to comply with the directions in Decision 3577-D01-2016.

3.3 Direction 3

19. In Decision 21515-D01-2016, Direction 3, the Commission stated:

> 81. The Commission accepts ATCO Pipelines' reduced forecast associated with the elimination of the seven positions in 2016. The Commission considers that the forecast reduction in 2016 are material adjustments to ATCO Pipelines' revenue requirements and are consistent with the intent of the Commission's November 27, 2015 ruling on placeholder treatment of FTEs due to the ATCO Group workforce reductions. ATCO Pipelines is directed, in its second compliance filing, to revise its forecast revenue requirements to reflect the forecast reductions in 2016 related to the elimination of seven positions.[15]

20. ATCO Pipelines provided the following table in response to the direction with respect to its operating and maintenance (O&M) and capital costs:

Table 3. Reduction in O&M and capital costs reflecting the elimination of seven positions in 2016[16]

	O&M	Capital
	($000)	
Salary	(636)	(31)
Benefits	(92)	(5)
IT	(33)	(2)
Net reduction	**(761)**	**(38)**

Commission findings

21. The Commission is satisfied that ATCO Pipelines has complied with Direction 3. As evidenced by Table 3, ATCO Pipelines has removed the forecast O&M and capital costs in 2016 associated with the eliminated seven positions, resulting in a reduction to revenue requirement of $765,000 in 2016.[17]

3.4 Direction 4

22. In Decision 21515-D01-2016, Direction 4, the Commission stated:

> 84. Accordingly, the Commission denies the severance associated with these terminations and directs ATCO Pipelines to reflect the forecast reduction associated with employee reductions, as identified in the table in response to AP-UCA-2016MAY16-004(c), for 2015 FTE amounts in the second compliance filing.[18]

15 Decision 21515-D01-2016, paragraph 81.
16 Exhibit 22058-X0007, PDF page 7.
17 Exhibit 22058-X0002.
18 Decision 21515-D01-2016, paragraph 84.

23. ATCO Pipelines provided the following table in response to the direction:

Table 4. Reduction in O&M and capital costs reflecting the elimination of seven positions in 2015

	O&M	Capital
	($000)	
Salary	(47)	(3)
Benefits	(7)	-
IT	(3)	-
Net reduction	**(57)**	**(3)**

24. ATCO Pipelines indicated in its response that it did not include severance costs for those eliminated positions in its 2015 revenue requirement.[19]

Commission findings

25. The Commission is satisfied that ATCO Pipelines has complied with Direction 4. As evidenced by Table 4, ATCO Pipelines has removed the forecast O&M and capital costs in 2015 for one month of labour associated with the eliminated seven positions, resulting in a reduction to revenue requirement of $58,000 in 2015.[20]

3.5 Direction 5

26. In Decision 21515-D01-2016, Direction 5, the Commission stated:

> 121. ATCO Pipelines is also directed to revise its forecast income tax and any other required adjustments to revenue requirements because of the Commission's findings in this decision.[21]

27. ATCO Pipelines provided the following response to the direction:

> As directed by the Commission, AP has provided revised revenue requirement schedules in Attachment A.

28. ATCO Pipelines indicated that the changes in income taxes between the June 22, 2015 update to the application in Proceeding 3577 and the compliance filing in Proceeding 21515 were driven by previous Commission directions which resulted in lower CCA deductions, and by the Commission's denial of ATCO Pipelines' tax deferral proposal in Decision 3577-D01-2016.

19 Exhibit 22058-X0007, PDF page 7.
20 Exhibit 22058-X0002.
21 Decision 21515-D01-2016, paragraph 121.

29. ATCO Pipelines provided the following table comparing actual and forecast taxes paid for 2010 to 2015:

Table 5. Actual and forecast income taxes

	2010	2011	2012	2013	2014	2015
Current tax	($000)					
Actual	N/A	N/A	N/A	676	653	N/A
GRA forecast	N/A	N/A	N/A	676	666	(137)
Variance	*N/A*	*N/A*	*N/A*	*0*	*(13)*	*N/A*

Note: ATCO Pipelines was in a negotiated settlement from 2010 to 2012 and therefore did not have forecast amounts for specific costs.

30. ATCO Pipelines submitted that it has forecast risk included in revenue requirement for forecast taxes paid as compared to actual current taxes paid. ATCO Pipelines stated that "This includes such things as timing of capital additions, tax rate changes, and other timing differences." However, ATCO Pipelines records deferred tax in deferral account balances when current taxes are impacted by timing differences or other tax changes.

31. ATCO Pipelines uses a flow through method for income taxes. ATCO Pipelines noted that where timing differences result in deferred tax expense, the deferred tax is not included in rates and is deferred until a later date when the timing differences reverse and are included in subsequent rates.

32. Finally, ATCO Pipelines provided additional information on the allocation of income tax loss or gain to itself or ATCO Gas. ATCO Pipelines stated that ATCO Gas and Pipelines Ltd. (AGPL) is one legal entity and therefore a combined tax return is filed and combined tax installments are made for ATCO Pipelines and ATCO Gas. For regulatory purposes, ATCO Pipelines indicated that it and ATCO Gas separately calculate and track their respective income taxes and required installments for the purposes of determining revenue requirements. In the event that ATCO Pipelines is in a tax loss position and ATCO Gas is in a tax payable position (or vice versa), AGPL nets the income tax payable and receivable positions.[22]

Commission findings

33. The Commission has reviewed ATCO Pipelines' explanations for the changes in income taxes reflected in Attachment A, as well as the explanations of income tax treatment by AGPL. The Commission is satisfied with the explanations included in the application and considers that ATCO Pipelines has complied with Direction 5.

3.6 Direction 6

34. In Decision 21515-D01-2016, Direction 6, the Commission stated:

> 133. The Commission's decision in paragraphs 162 and 163 clearly relates to both O&M and capital amounts, and the Commission is not persuaded that O&M should be subject to different carrying cost treatment than capital based on the evidence filed in this compliance filing. ATCO Pipelines has not complied with the direction in paragraph 163 of Decision 3378-D01-2016 and there is an insufficient basis, and no request for review of Decision 3378-D01-2016, for the Commission to deviate from this decision where the use of WACC [weighted average cost of capital] was directed. As a result, ATCO

[22] Exhibit 22058-X0007, PDF pages 8-10.

Pipelines is directed, in its second compliance filing, to file a recalculation of all Evergreen II related carrying charges, in Appendix 4 format, using the WACC method, in order to comply with the direction from Decision 3378-D01-2016.[23]

35. ATCO Pipelines provided the following response to the direction:

As directed by the Commission, AP has recalculated carrying charges related specifically to Evergreen using the WACC method. Below is the updated refund amount. Please refer to Attachment C for the updated carrying cost calculation. AP will include the Evergreen refund in the one-time settlement of reserves and deferrals approved in Decision 21515-D01-2016 upon the Commission's approval of this direction.

Table 6. Revised Evergreen II true-up

	2010	2011	2012	2013	2014	Total
	($000)					
O&M	(471)	(487)	(504)	(600)	(512)	**(2,574)**
Direct capital	11	8	(24)	(44)	(95)	**(144)**
Other capital	47	31	11	4	(25)	**68**
Carrying charges (@ WACC)	(21)	(59)	(96)	(137)	(566)	**(879)**
Total	(434)	(508)	(613)	(777)	(1,197)	**(3,529)**
Present value (PV) of future 2010 property, plant and equipment (PP&E) reductions – direct capital						(97)
PV of future 2011 PP&E reductions – direct capital						(150)
PV of future 2012 PP&E reductions – direct capital						(178)
PV of future 2013 PP&E reductions – direct capital						(439)
PV of future 2014 PP&E reductions – direct capital						(283)
PV of future 2010 PP&E reductions – other capital						(143)
PV of future 2011 PP&E reductions – other capital						(165)
PV of future 2012 PP&E reductions – other capital						(174)
PV of future 2013 PP&E reductions – other capital						(215)
PV of future 2014 PP&E reductions – other capital						(186)
Total amounts owed by ATCO Pipelines						**(5,557)**

36. The calculation for carrying charges related to Evergreen II refunds was a total of $879,000.[24]

Commission findings

37. ATCO Pipelines has calculated the carrying cost using the WACC method for O&M and capital, as directed by the Commission in Decision 21515-D01-2016. The Commission therefore considers that ATCO Pipelines has complied with the direction in paragraph 163 of Decision 3378-D01-2016 and Direction 6 of Decision 21515-D01-2016.

23 Decision 21515-D01-2016, paragraph 133.

24 Exhibit 22058-X0007, PDF pages 10 and 11 and Exhibit 22058-X0006. On October 13, 2016, ATCO Pipelines filed an appeal of this direction from Decision 21515-D01-2016, and it filed a review and variance with the Commission on November 10, 2016.

4 Order

38. It is hereby ordered that:

(1) ATCO Pipelines’, a division of ATCO Gas and Pipelines Ltd., 2015 and 2016 revenue requirement amounts of $208,865,000 and $237,968,000, respectively, as included in ATCO Pipelines’ second compliance filing to Decision 3577-D01-2016 and shown in Table 1 of this decision, are approved as final.

(2) ATCO Pipelines’, a division of ATCO Gas and Pipelines Ltd., deferral account settlement of $11,449,000 is approved to be refunded as a one-time adjustment to its monthly rate to NOVA Gas Transmission Ltd.

Dated on November 28, 2016.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Panel Chair

(original signed by)

Bill Lyttle
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd. Bennett Jones LLP

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

Appendix 2 – Commission directions addressed in compliance application

(return to text)

This section is provided for the convenience of readers and reproduces directions from Decision 21515-D01-2016 that the Commission finds have been satisfied. In the event of any difference between the directions in this section and those in the main body of Decision 21515-D01-2016, the wording and meaning in the main body of Decision 21515-D01-2016 shall prevail.

1. ATCO Pipelines is directed in its second compliance filing to apply the 10 per cent reduction to its forecast improvement and replacement capital expenditures in 2015 and 2016, incorporating the findings in the previous paragraphs. .... Paragraph 33
2. In its review of ATCO Pipelines' adjustments to revenue requirements associated with Direction 8, the Commission noticed that Attachment A of the compliance filing shows income taxes of $213,000 in 2015 and $576,000 in 2016 which offset reductions to revenue requirements related to the disallowed IT projects. The Commission directs ATCO Pipelines to provide the income tax calculations related to Direction 8 as recorded in Attachment A, in its second compliance filing. .... Paragraph 54
3. The Commission accepts ATCO Pipelines' reduced forecast associated with the elimination of the seven positions in 2016. The Commission considers that the forecast reduction in 2016 are material adjustments to ATCO Pipelines' revenue requirements and are consistent with the intent of the Commission's November 27, 2015 ruling on placeholder treatment of FTEs due to the ATCO Group workforce reductions. ATCO Pipelines is directed, in its second compliance filing, to revise its forecast revenue requirements to reflect the forecast reductions in 2016 related to the elimination of seven positions. ....Paragraph 81
4. Accordingly, the Commission denies the severance associated with these terminations and directs ATCO Pipelines to reflect the forecast reduction associated with employee reductions, as identified in the table in response to AP-UCA-2016MAY16-004(c), for 2015 FTE amounts in the second compliance filing. .... Paragraph 84
5. ATCO Pipelines is also directed to revise its forecast income tax and any other required adjustments to revenue requirements because of the Commission's findings in this decision. ....Paragraph 121
6. The Commission's decision in paragraphs 162 and 163 clearly relates to both O&M and capital amounts, and the Commission is not persuaded that O&M should be subject to different carrying cost treatment than capital based on the evidence filed in this compliance filing. ATCO Pipelines has not complied with the direction in paragraph 163 of Decision 3378-D01-2016 and there is an insufficient basis, and no request for review of Decision 3378-D01-2016, for the Commission to deviate from this decision where the use of WACC was directed. As a result, ATCO Pipelines is directed, in its second compliance filing, to file a recalculation of all Evergreen II related carrying charges, in Appendix 4 format, using the WACC method, in order to comply with the direction from Decision 3378-D01-2016. .... Paragraph 133

Appendix 3 – Outstanding directions for future general rate applications

(return to text)

This section is provided for the convenience of readers and reproduces directions from Decision 3577-D01-2016 that the Commission considers remain outstanding. Directions not listed in this appendix will either be listed in Appendix 3 of Decision 3577-D01-2016 or in the preceding Appendix 2 as completed. In the event of any difference between the directions in this section and those in the main body of Decision 3577-D01-2016, the wording and meaning in the main body of the relevant decision shall prevail.

Decision 3577-D01-2016

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

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

18. ATCO is directed to file the above-noted cost breakdown information, accessible in a useable electronic format, such as excel, in all its future capital deferral account filings.... .... Paragraph 452

21. In the context of this application, the Commission recognizes that its predecessor, the Alberta Energy and Utilities Board, directed ATCO Pipelines to estimate the annual charge to the reserve fund based on one incident every five years. However, given the submissions of interveners, the Commission is cognizant that the environment in which that direction was made has changed and may not be the optimum methodology going-forward. However, consistent with past findings that a five-year average is optimal for estimates when specific costs are not available, the Commission finds it reasonable for ATCO Pipelines to use a five-year average to estimate unspecified incidents in the RID. In its next GRA, ATCO Pipelines is directed to provide an analysis of whether the five-year average remains the optimal methodology for the RID .... Paragraph 521