Alberta Utilities Commission

ATCO Pipelines

2017 Interim Revenue Requirement

December 13, 2016

Alberta Utilities Commission
Decision 22087-D01-2016
ATCO Pipelines
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Proceeding 22087

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Published by the:
Alberta Utilities Commission
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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 October 18, 2016, requesting approval of its 2017 interim revenue requirement. ATCO Pipelines requested approval of an interim monthly fixed fee, which would recover 100 per cent of its revised forecast 2017 revenue requirement. In the application, ATCO Pipelines revised the forecast 2017 revenue requirement provided in its 2017-2018 general rate application (GRA)[1] to reflect the findings of the 2016 generic cost of capital (GCOC) decision[2] and to reflect ATCO Pipeline's second 2015-2016 GRA compliance filing.[3]

2. The Commission issued a notice of application (notice) on October 19, 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 November 2, 2016. No submissions were received in response to the notice. Because of that, the Commission issued a letter on November 4, 2016, stating that it would make its decision on the application without further process.

3. The Commission considers the close of record for this proceeding to be November 2, 2016.

4. 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 and details of the application

5. ATCO Pipelines filed its 2017-2018 GRA on September 22, 2016.[4] In its 2017-2018 GRA, ATCO Pipelines requested approval of its forecast revenue requirement of $271,792,000 for 2017 and $293,365,000 for 2018. ATCO Pipelines stated that the increased revenue requirement is primarily because of rate base growth and proposed changes to its depreciation rates.

[1] Proceeding 22011, ATCO Pipelines 2017-2018 GRA. Filed September 22, 2016.
[2] Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.
[3] Proceeding 22058, ATCO Pipelines compliance filing II to Decision 21515-D01-2016. Filed October 6, 2016.
[4] Proceeding 22011, ATCO Pipelines 2017-2018 GRA.

6. On October 7, 2016, the Commission issued its decision on the 2016 GCOC. Decision 20622-D01-2016 approved a 20 basis point increase to the 2017 allowed return on equity, from 8.3 per cent to 8.5 per cent. The effect of this decision on ATCO Pipelines' 2017 forecast revenue requirement was an increase of $1.541 million.

7. On October 6, 2016, ATCO Pipelines filed its second 2015-2016 GRA compliance filing. In that application, ATCO Pipelines forecast the change due to the Commission's findings to be a decrease to its 2017 forecast revenue requirement of $0.876 million.

8. In the current application, ATCO Pipelines requested a monthly fixed fee, on an interim basis, of $22,479,750. This fee recovers the revised forecast 2017 revenue requirement of $272,457,000 on a monthly basis, and is a 14 per cent increase over ATCO Pipelines' 2016 revenue requirement. ATCO Pipelines provided the following table explaining its revised forecast 2017 revenue requirement in its application.

Table 1. ATCO Pipelines revised forecast 2017 revenue requirement

	($000)
2016 revenue requirement[1]	**238,844**
Impact of rate base growth	17,697
Change of depreciation rates	14,471
Operations and maintenance	733
Other	47
Forecast 2017 revenue requirement (as applied for)	**271,792**
GCOC impact - Decision 20622-D01-2016[2]	1,541
Compliance filling II impact (Proceeding 22058)	(876)
Revised forecast 2017 revenue requirement	**272,457**

Source: Exhibit 22087-X0001, application, Table 1, page 3.

1 – Per the 2015-2016 GRA compliance filing I (Proceeding 21515).
2 – Per Decision 20622-D01-2016, 2016 GCOC.

9. ATCO Pipelines submitted that recovery of 100 per cent of its revised forecast 2017 revenue requirement on an interim basis is reasonable given its historical experience when comparing its applied-for revenue requirements against the Commission's final approved revenue requirements. ATCO Pipelines provided the following comparison in its application.

Table 2. Comparison of historical applied-for revenue requirement to final approved revenue requirement

Test period	AP applied for revenue requirement	AUC approved revenue requirement	Revenue requirement approved
	($000)		%
2016	245,472	237,968[1]	97
2015	210,233	208,865[1]	99
2014	209,374	192,642	92
2015	190,790	182,941	96
Four-year average			**96**

Source: Exhibit 22087-X0001, application, Table 2, page 7.

1 – Per ATCO Pipeline's 2015-2016 GRA compliance filing II (Proceeding 22058).

3 Discussion of issues

3.1 Rate base growth and depreciation rate changes

10. In the application, ATCO Pipelines submitted that the 2017 increase in revenue requirement from rate base is primarily driven by its continued capital expenditures for the Urban Pipeline Replacement (UPR) program and major projects, including Inland Loop and Pembina Expansion (NOVA Gas Transmission Ltd.'s (NGTL) directed growth projects). Rate base growth accounts for approximately 51 per cent of the overall increase in the test period.

11. ATCO Pipelines submitted that the increased revenue requirement is also reflective of proposed changes to ATCO Pipelines' depreciation rates as a result of its recent full depreciation study. The most significant change in depreciation rates is due to a change in net salvage rates, which accounts for $10.8 million of the increase in 2017. The change in net salvage rates accounts for approximately 31 per cent of the overall increase in the test period. In addition to the change in net salvage rates, ATCO Pipelines has modified its reserve calculation from utilizing its previously-approved broad group method to the proposed equal life group method. The change in methodology has resulted in an increase of $4.0 million in depreciation in 2017 out of the total $4.2 million change in reserve calculation, which is approximately an 11 per cent increase in the test period.

3.2 Quantum, need and public interest factors

12. ATCO Pipelines submitted that the requested interim revenue requirement increase is both probable and material citing the established need for projects such as the UPR, Inland Loop and Pembina. It argued that the increase is essential in supporting its capital and operating and maintenance programs as well as ensuring its continued ability to provide safe and reliable service. ATCO Pipelines was unsure, given the fact that the GRA has not yet been tested by interveners, whether there were contentious issues in the application.

4 Commission findings

13. Regarding ATCO Pipelines' second 2015-2016 GRA compliance filing, the Commission issued Decision 22058-D01-2016[5] on November 28, 2016, approving its final 2015-2016 revenue requirement and the $0.876 million decrease to ATCO Pipelines' 2017 forecast revenue requirement.

14. 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 that might result on approval of a final revenue requirement against the costs that underpin the interim revenue requirement, 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 for in Decision 2010-038,[6] 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
> - 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?[7] [footnotes removed]

15. The Commission finds that at least some portion of the requested year-over-year increase of $33.6 million is probable and material because of the ongoing projects described in paragraph 10. However, $14.8 million of this increase is due to changes to net salvage rates and the reserve calculation methodology proposed in the 2017-2018 GRA which are likely to be contentious issues. The increase associated with these issues is significant.

16. 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

5 Decision 22058-D01-2016: ATCO Pipelines, 2015-2016 Revenue Requirements Second Compliance Filing to Decision 3577-D01-2016, Proceeding 22058, November 28, 2016.

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

7 Decision 2010-038, paragraph 25.

- 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.[8] [footnotes removed]

17. ATCO Pipelines noted that its revenue requirement is incorporated into NGTL's revenue requirement because of the terms of integration between the two systems. The Commission is mindful that the effect 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.

18. The Commission finds that there are major changes proposed in ATCO Pipelines 2017-2018 GRA that have the potential to be contentious and significantly affect the revised forecast 2017 revenue requirement. These changes affect $14.8 million or 44 per cent of the requested $33.6 million increase over 2016. Taking all factors into account, quantum, need and public interest, the Commission approves 60 per cent of ATCO Pipelines' revised forecast 2017 revenue requirement increase. Therefore, the Commission approves $20.2 million of the $33.6 million requested increase. This results in a total 2016 revenue requirement of $259,011,800,[9] and a monthly rate of $21,584,317, before the removal of franchise taxes collected through Rider A, to be effective January 1, 2017. The Commission finds that 60 per cent recovery reasonably covers the portion of the requested revenue requirement increase that is probable and material and allows for the continued financial integrity of ATCO Pipelines and reliable service to customers.

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8 Decision 2010-038, paragraph 28.

9 [($272,457,000 – $238,844,000) x 60%] + $238,844,000 = $259,011,800.

5 Order

19. It is hereby ordered that:

    (1) ATCO Pipelines' 2017 interim revenue requirement is approved in the amount of $21,584,317, before the removal of franchise taxes collected through Rider A, and will be collected monthly, effective January 1, 2017.

Dated on December 13, 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) counsel or representative
ATCO Pipelines Bennett Jones LLP

Alberta Utilities Commission Commission panel N. Jamieson Panel Chair B. Lyttle, Commission Member Commission staff D. Larder (General counsel) S. Karim M. McJannet