Alberta Utilities Commission

ATCO Gas

2008-2009 General Rate Application
Phase I Compliance Filing

July 28, 2009

ALBERTA UTILITIES COMMISSION
Decision 2009-109: ATCO Gas
2008-2009 General Rate Application Phase I Compliance Filing
Application No. 1603068
Proceeding ID. 154

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1 INTRODUCTION

1. On November 13, 2008, the Alberta Utilities Commission (AUC or Commission) issued Decision 2008-113 regarding the 2008-2009 General Rate Application (GRA) Phase I for ATCO Gas (AG). In Decision 2008-113, the Commission directed AG to re-file its 2008-2009 GRA incorporating the Commission's findings, conclusions and directions (Directions) in that Decision and provide a detailed reconciliation of the 2008-2009 revenue requirements.

2. On January 19, 2009[1] AG re-filed its 2008-2009 GRA (Compliance Filing), reflecting the revisions required to comply with the Commission's Directions in Decision 2008-113.

3. On January 28, 2009, the Commission issued Notice of Application with respect to the Compliance Filing. Subsequently, Statements of Intent to Participate in the proceeding were received from BP Canada Energy Company, the Consumer's Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA).

4. On February 11, 2009, the Commission established the following process to test and decide any issues arising in respect of the Compliance Filing:

Process Step	Schedule
Information Requests to AG	February 25, 2009, 4:00 p.m.
Information Responses from AG	March 11, 2009, 4:00 p.m.
Simultaneous Argument	March 30, 2009, 4:00 p.m.
Simultaneous Reply	April 14, 2009, 4:00 p.m.

5. By letter dated March 19, 2009, UCA filed a motion (Motion) requesting a decision or order from the Commission directing AG to provide further and better particulars in response to certain UCA information requests.

6. As a result of the Motion, the Commission suspended the Argument and Reply deadlines on March 24, 2009, and established a process to address the Motion, allowing responses from interested parties and reply by UCA.

7. By letter dated March 31, 2009, AG responded to the Motion and provided additional information with respect to the information requests in question.

[1] By letter dated December 22, 2008, the Commission extended the deadline for AG to re-file its 2008-2009 GRA to January 19, 2009 (Exhibit 258.01 from the AG 2008-2009 GRA Proceeding, EPS ID 11)

8. By letter dated April 9, 2009, UCA stated that it was prepared to proceed with Argument and Reply based on the information on the record.

9. On April 20, 2009, the Commission advised parties that it considered UCA's Motion to be concluded and that it would reestablish Argument and Reply dates. However, in its ongoing review of the Compliance Filing, the Commission determined that it required additional information regarding certain items. Consequently, the Commission established the following schedule:

Process Step	**Schedule**
Commission Information Requests to AG	April 27, 2009, 4:00 p.m.
Information Responses from AG	May 11, 2009, 4:00 p.m.
Simultaneous Argument	May 22, 2009, 4:00 p.m.
Simultaneous Reply	May 29, 2009, 4:00 p.m.

10. The Commission considers that the record for this proceeding closed on May 29, 2009. The Division of the Commission assigned to deal with this matter consisted of Commission Chair, Mr. Willie Grieve, Commissioners Mr. Bill Lyttle and Mr. N. Allen Maydonik, Q.C.

11. 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, 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

12. AG provided an update to its Compliance Filing (Compliance Update) on March 16, 2009. The following summaries compare the applied-for revenue requirements for its service territories, AG North and AG South, for each of 2008 and 2009:

Table 1. ATCO Gas North Utility Revenue Requirement ($000's)

	2008 ($000)				2009 ($000)			
	As Filed	GRA Update	AUC 2008-113	Compliance Update	As Filed	GRA Update	AUC 2008-113	Compliance Update
Required Invested Capital	689,028	666,329	666,622	666,423	804,320	777,410	770,090	769,371
Return on Rate Base	7.51%	7.34%	7.25%	7.252%	7.51%	7.36%	7.17%	7.17%
Utility Income	51,711	48,924	48,340	48,326	60,419	57,183	55,193	55,142
Cash Operating Expenses								
Other Taxes	326	326	326	326	341	341	341	341
Other Operating Expenses	152,566	150,951	161,461	161,405	165,870	164,205	181,025	180,406
Total Cash Operating Expenses	152,892	151,277	161,787	161,731	166,211	164,546	181,366	180,747
Non Cash Operating Expenses								
Depreciation	49,278	48,531	48,550	48,549	55,296	54,222	54,094	54,081
Income Taxes								
Provision for Income Taxes	7,760	5,975	6,035	6,028	10,216	6,946	7,068	7,056
Base Rate Revenue Requirement	261,641	254,707	264,712	264,634	292,142	282,897	297,721	297,026
Franchise Fees	60,478	59,826	59,122	59,122	63,905	63,151	62,892	62,892

Table 2. ATCO Gas South Utility Revenue Requirement ($000's)

	2008 ($000)					2009 ($000)				
	As Filed	GRA Update	AUC 2008-113	Carbon Update	Compliance Update	As Filed	GRA Update	AUC 2008-113	Carbon Update	Compliance Update
Required Invested Capital	613,867	566,658	564,846	564,034	563,880	674,708	631,371	623,343	622,609	622,494
Return on Rate Base	7.71%	7.55%	7.50%	7.50%	7.50%	7.71%	7.55%	7.45%	7.45%	7.45%
Utility Income	47,336	42,788	42,371	42,309	42,298	51,995	47,662	46,467	46,411	46,402
Cash Operating Expenses										
Other Taxes	455	46	46	41	41	477	47	47	42	42
Other Operating Expenses	130,083	121,478	121,189	120,799	120,759	141,133	131,975	133,681	133,266	132,638
Total Cash Operating Expenses	130,538	121,524	121,235	120,840	120,800	141,610	132,022	133,728	133,308	132,680
Non Cash Operating Expenses										
Depreciation	44,247	41,730	41,697	41,697	41,697	48,603	45,816	45,683	45,683	45,683
Income Taxes										
Provision for Income Taxes	7,288	3,880	4,669	4,817	4,814	9,674	5,321	6,162	6,258	6,258
Base Rate Revenue Requirement	229,409	209,922	209,972	209,663	209,609	251,882	230,821	232,040	231,660	231,023
Franchise Fees	91,084	89,518	89,148	89,148	89,148	96,343	95,007	95,811	95,811	95,811
Total Utility Revenue Requirement	320,493	299,440	299,120	298,811	298,757	348,225	325,828	327,851	327,471	326,834

3 COMPLIANCE WITH DIRECTIONS FROM DECISION 2008-113

13. During the course of this proceeding, interveners claimed that there were a number of Commission's Directions with which AG had not properly complied in its Compliance Filing. The Commission addresses these Directions in the sections that follow:

3.1 Occupational Labour - Inflation of 5.0% in 2009 – Direction 1

14. The Commission issued the following Direction to AG:

> 1. Based on the information provided, the Commission is of the view that AG has not demonstrated that a catch-up is required for the occupational labour category and as a result, AG's forecasted inflation rate of 7.50% is not accepted by the Commission. Rather, based on the information presented in this proceeding, the Commission finds that the upper end of UCA's 2009 occupational labour inflation forecast of 5.0% is more reasonable which is based on the evidence of Dr. Bruce, based on his analysis of the supervisory labour market in Alberta, including wage increases to Alberta Government management employees and the Alberta wage inflation index for Professional, scientific, and technical services industrial aggregate. Therefore the Commission directs AG to apply an occupational labour inflation rate of 5.0% in 2009 to all appropriate amounts in the Application and update all corresponding tables in the refiling. (footnote omitted)

15. AG advised that it had restated its operating and maintenance (O&M) expenses and capital expenditures in the Compliance Filing using the approved occupational labour inflation rate of 5.0 percent in 2009, resulting in a decrease of $1,471,000 to O&M and $1,437,000 to capital expenditures.

16. CCA stated that it had reviewed the computation in respect of the restated O&M expenses and capital expenditures using the approved occupational labour inflation rate of 5.0 percent in 2009 and concurred with the decreases proposed by AG.

17. UCA noted that AG had removed step increases (costs associated with movements through a particular pay band) and growth increases (increases in full time equivalent employees) from the occupational labour forecast before applying the approved inflation rate. UCA considered that these amounts should not be removed from the forecast, but should be subject to the approved inflation rate. As a result, UCA recommended that a further reduction of $109,000 should be applied to the occupational labour forecast.

18. UCA argued that AG introduced new information in the Compliance Filing with respect to its treatment of steps and growth, and that this information should have been provided in the original GRA responses to information requests. The UCA also noted that the steps and growth component in the occupational labour category, which totaled $4,714,000 according to AG, was in fact an estimate of the impact of steps and growth which AG had explained in response to UCA-AG-1(a) as follows:

> Occupational employees are provided with a "Step" increase as they progress through a job class. The step increases included in the $4,714,000 were based on the 2008 Collective Agreement between ATCO Gas and the NGEA (Natural Gas Employee's Association). The growth amount included in the $4,714,000 relates to additional positions for 2009 which did not have an inflation component and thus were removed in

> the inflation calculation. These amounts were removed from the total occupational labour to arrive at a base labour amount which is what inflation was calculated on. When a growth position is added, it is unknown what the pay level of the person filling the position will be as it is most often an existing employee, therefore the dollars included for growth positions are merely an estimate based on existing pay levels so there is no implicit inflation component. The development of the forecast for Occupational labour does not allow for the ability to specifically separate out steps from growth. ATCO Gas estimates the potential inflationary impact on steps would be approximately $50,000 in 2009.

19. The Commission notes AG acknowledged that inflation is factored into step amounts.[2] The Commission considers that it would be appropriate to reflect an inflationary reduction to account for this. In the Compliance Update, AG increased its occupational labour inflation adjustment by $50,000 to reflect the inflationary impact on steps. While it is not clear to the Commission exactly how AG arrived at the estimate of $50,000, the Commission is prepared to accept this amount for the purposes of this Compliance Filing. Based on this update the Commission is satisfied that the steps and growth amount does not contain an inflationary increase that requires a further adjustment.

20. With respect to growth positions, the Commission accepts AG's argument that there would be no implicit inflation component in growth positions as these amounts are estimates based on existing pay levels. On this basis, the Commission considers that no further action is required on this issue. However, the Commission directs AG in its next and subsequent GRAs to provide greater transparency around the calculation of the step and growth increases associated with its labour components.

3.2 Supervisory Labour - Inflation of 4.5% in 2008 and 5.0% in 2009 – Direction 2

21. The Commission issued the following Direction to AG:

> 2. Given the UCA's observation that management increases appear to be in line with occupational increases, and based on the findings above, the Commission directs AG in the refiling to apply a supervisory inflation rate of 4.5% in 2008 and 5.0% in 2009 to all appropriate labour categories in the refiling.

22. In the Compliance Filing, AG restated the O&M expenses using the approved supervisory inflation rates of 4.5 percent for 2008 and 5.0 percent for 2009. This resulted in decreases to O&M of $749,000 and $1,516,000 in 2008 and 2009, respectively. In response to AUC-AG-10, AG indicated that an additional $241,000 should have been removed in arriving at the base costs.

23. UCA noted that AG had removed step and growth increases from the supervisory labour forecast, as it had from its occupational labour forecast discussed above, before applying the approved inflation rate. Again, UCA considered that these increases should not be removed from the forecast, but should be subject to the approved inflation rate. As a result, UCA submitted that a further reduction of $50,000 in 2008 and $100,000 in 2009 should be applied to the supervisory labour forecast.

24. CCA stated that it had reviewed the computation of the restated O&M expenses using the approved supervisory inflation rates of 4.5 percent in 2008 and 5.0 percent in 2009. Subject to

[2] Exhibit 54.01, AG Reply Argument, paragraph 3

AG's comment in AUC-AG-10, which indicated an additional $241,000 in costs should be removed from the base costs to which inflation was applied; CCA concurred with the proposed reduction of $749,000 in 2008. CCA did not comment with respect to 2009.

25. With respect to the UCA's concerns regarding the removal of steps and growth from the supervisory labour forecast, the Commission notes that in Reply Argument, AG indicated that it removed step and growth amounts that did not have inflation applied to them. The Commission considers that this approach is consistent with AG's treatment of steps and growth for occupational labour. Further, the Commission previously accepted that there would be no implicit inflation associated with growth. On this basis the Commission is satisfied with AG's treatment of steps and growth for supervisory labour. Consequently, apart from the Commission's comments below with respect to the methodology AG used in calculating the reductions associated with the approved inflation forecasts, it will not provide any further directions in this regard.

26. In AUC-AG-10, the Commission issued an information request to AG concerning the methodology AG used in calculating the reductions associated with the approved inflation forecasts. The Commission's concern was that AG's methodology calculated the 2008 and 2009 reductions on a separate or disconnected basis, rather than calculating the 2008 amount and then applying the inflation factor to the 2008 amount to arrive at the inflation-adjusted 2009 forecast. In a forecast environment, the Commission considers that a reasonable and prudent methodology would be to calculate the first test year, then apply the appropriate adjustments for inflation and other items to arrive at the second year forecast amount.

27. In AUC-AG-10 the Commission also gave AG an opportunity to critique the above noted methodology proposed by the Commission in calculating the revised forecast for supervisory labour. AG did not address or otherwise identify any concerns with the use of this methodology.

28. Given that AG has not applied this methodology in arriving at its revised forecast for 2008 and 2009, the Commission rejects AG's forecast inflation reductions to supervisory labour. Further, the Commission is satisfied that this methodology is a reasonable approach for arriving at 2009 supervisory labour forecast adjusted for inflation. On this basis, the Commission has re-calculated the 2009 supervisory labour forecasts as follows:

Table 3. Commission Calculation of 2009 Supervisory Labour Forecast ($000)

	2008		2009
Total Supervisory Labour	23,716	2008 Supervisory Labour	22,967
Remove Steps and Growth	(1,371)	Add 2009 Inflation Rate	5.00%
Labour and Inflation	22,345	2009 Inflated Supervisory Labour	24,115
Remove Inflation as Filed	8.12%	Add Steps and Growth	803
Base Labour	20,666	2009 Commission Supervisory Labour	24,918
Add Revised Inflation Rate	4.50%	2009 Forecast Supervisory Labour	26,724
Revised Labour	21,596		
Add back Steps and Growth	1,371	Inflation Adjustment	(1,806)
2008 Supervisory Labour	22,967	AG Inflation Adjustment	1,516
Inflation Adjustment	(749)	Further Adjustment Required	(290)

29. Based on the Commission's calculations, AG is required to further reduce the 2009 supervisory labour forecast by $290,000. The Commission directs AG to re-file its revenue requirement and supporting schedules, incorporating this change, in a second compliance filing (Second Refiling).

3.2.1 Inflation Methodology

30. AG utilized the same methodology in calculating the inflation adjustments shown in AUC-AG-2 Attachment as it did to update its supervisory labour forecasts discussed above, that is, the reductions for 2008 and 2009 were calculated on a separate basis, rather than calculating the 2008 amount and then applying the inflation factor to the 2008 amount to arrive at the inflation-adjusted 2009 forecast. From the Commission's perspective, this methodology has two undesirable effects. First, there is a compounding effect between the test years that is not accounted for in the reductions proposed by AG. Secondly, there is no continuity in the inflationary increases between the two years.

31. The Commission recognizes that the choice of methodology used to calculate inflationary adjustments will impact any forecast that have an inflation component.

32. Therefore the Commission directs AG in the Second Refiling to provide detailed calculations of the resulting impacts on the remainder of its forecasts that have contract services and general materials and supplies inflation components using the methodology outlined above to calculate AG's 2009 supervisory labour forecast.

33. Further, the Commission directs AG in the Second Refiling to further adjust its 2009 revenue requirement to reflect the forecasts adjusted in this manner. The Commission considers that these calculations will apply to both capital and O&M forecasts as discussed in Section 3.4 of this Decision.

3.3 Contract Services - Double Counting Second Year Inflation Amounts – Direction 3

34. The Commission issued the following Direction to AG:

> 3. The Commission accepts CG's submission that inflation forecasts should be consistently applied to the appropriate category or expenditure for which the inflation rate has been forecast. It is not clear to the Commission whether AG forecasts projects on a line by line basis; if this is not the practice, breaking out inflation factors for each specific line item for each project could result in significant amounts of additional work. The Commission considers that it would be more appropriate for AG to provide a discussion in its next GRA of how it applies inflation forecasts. Therefore the Commission directs AG in its next GRA to provide a discussion of how it applies inflation forecasts as noted above, and how these inflation forecasts are applied to projects with various time horizons. Further, to the extent that AG has double counted the second year increase for two-year contracts, the Commission directs AG in the refiling to remove these costs from the forecasts and clearly report these changes in the appropriate schedules.

35. In the Compliance Filing AG stated that it had adjusted its capital expenditure forecasts using the inflation rates approved by the Commission in Decision 2008-113. Further, in AG's

response to AUC-AG-3 and in its revised responses to UCA-AG-3, AG stated that there was no double counting of the second year increase of two-year contracts.

36. The UCA argued that, to the extent 2008 and 2009 inflation source data[3] included an unadjusted level of inflation for 2008 that was reflected in the GRA, it follows that there was double counting of inflation in 2009. UCA submitted that the 2009 inflation source data must be adjusted downward to reflect adjustments to 2008 inflation.[4]

37. The Commission understands UCA's Argument that if, for example, a contractor had a two year contract with a built-in inflation factor for the second year, to the extent that inflation for 2009 was increased from 0.0 percent to the AUC-approved rate of 5.0 percent, double-counting would have occurred. The Commission agrees with this position and, to the extent that double counting of this nature has occurred, the Commission directs AG in the Second Refiling to confirm that no double-counting of this type is included in revenue requirement.

38. The Commission considers that the directions that follow in Section 3.4 may further address the concern raised by the UCA with respect to double counting.

3.4 Contract Services - Inflation of 10.0% in 2008 and 5.0% in 2009 – Directions 4 and 5

39. The Commission issued the following Directions to AG:

> 4. However, AG indicated that inflation forecasts were based on AG's actual experience for 2007, with the assumption that the pace of growth in 2006 and 2007 will continue in 2008 and 2009. The Commission notes that during the hearing it was acknowledged that the pace of growth in Alberta had decreased from previous levels. On this basis, the Commission considers that it would be appropriate to reduce AG's 2008 forecast level for contractor inflation to 10%. Therefore the Commission directs AG in the refiling to apply a contractor inflation rate of 10% to all appropriate forecasts. (footnotes omitted)
>
> 5. Based on these findings, the Commission approves a contractor inflation rate for 2009 of 5% and directs AG in the refiling to apply a contractor inflation rate of 5% to the appropriate contractor amounts for 2009.

40. AG stated that contractor inflation forecasts included some rates that were higher and some that were lower than the resulting average of 11.06 percent. Further, it had applied the Commission approved inflation rate of 10.0 percent to all the forecasts included in Exhibit 0170 Attachment,[5] with the exception of the operating centres (see Direction 17), which resulted in an increase to capital expenditures of $1,781,000.[6] In Reply Argument, AG argued that there was no evidence on the record to support UCA's position that contractor inflation also applied to O&M expenses.[7]

41. UCA objected to the results obtained by AG in its implementation of Directions 4 and 5 to its contract services forecasts. UCA argued that there was a $652,000 error in the adjustment

[3] Exhibit 29.03, AUC-AG-2 Attachment, page 19 of 48
[4] Exhibit 50.02, UCA Argument, paragraph 22
[5] Exhibit 170.02 from the AG 2008-2009 GRA Proceeding, EPS ID 11
[6] Exhibit 1.00, Compliance Filing, Response to Direction 4
[7] Exhibit 54.01, AG Reply Argument, paragraph 24

to supplies (specifically, contractors) inflation which should reduce the $1,781,000 increase in 2008 to $1,180,000. UCA also argued that the contractor inflation rate should also be applied to contractor inflation amounts in O&M, not just capital amounts, resulting in further reductions of $100,000 in 2008 and $800,000 in 2009.

42. CCA noted that an increase, rather than a decrease, to contractor inflation occurred as a result of AG's inflation adjustment, due to the higher than 10.0 percent increase assumed for the operating centres. CCA submitted that, to the extent that the implicit inflation rate for the Edmonton Operating Centre is a forecast that used a rate higher than the 10.0 percent approved by the Commission, the inflation adjustment amount for the Edmonton Operating Centre should be reduced so the increase does not exceed 10.0 percent. Further, CCA argued that it was not able to reconcile the details provided in AG's Summary of Capital Expenditure Adjustments under Direction 4 with the details provided in AUC-AG-11 and recommended that AG should explain this adjustment more fully.

43. At the outset of the 2008-2009 GRA proceeding, the Commission recognized that its findings regarding inflation rates would impact, in some way, the majority of AG's forecasts. For this reason, the Commission set out its views on inflation in a separate section (Section 5) in Decision 2008-113 and considered that the determinations made with respect to the various inflation categories would apply to all of AG's costs falling within those categories.

44. The Commission has reviewed the inflation section of AG's 2008-2009 GRA Application (Section 8) and notes that with respect to contract services, AG commented on construction contracts and the proposed inflation amounts associated with these contracts; AG did not limit the inflationary increases in this area to capital projects only. Further, in the introduction to Section 8, AG highlighted the fact that the proposed inflationary increases apply to capital and operating costs. Thus, the Commission disagrees with AG's argument that the Directions dealing with contractor inflation do not apply to O&M expenses. The Commission confirms that the inflation adjustments for 2008 and 2009 apply to all contractors utilized by AG.

45. To the degree that there are 2008 and 2009 contractor expenses in O&M that have not been reduced based on the approved inflation forecasts, the Commission directs AG in the Second Refiling to identify these amounts and calculate the appropriate reduction based on the methodology discussed in paragraph 47.

46. The Commission notes that by lowering the contractor inflation rate from 11.06 percent to 10.0 percent it was the intent of the Commission to effect a reduction in contractor costs to reflect the decrease in the pace of growth in Alberta from previous levels. However, as AG's application of this Direction has resulted in an increase in contractor costs, the Commission considers that it must provide further clarification to enable AG to satisfy the Directions with respect to the contractor inflation rate for 2008 and 2009.

47. In its review of Exhibit 0170 Attachment, the Commission considered that the inflation rate of 11.06 percent was directly associated with the inflation dollars of $15,653,000. Reducing the inflation rate from 11.06 percent to 10.0 percent should result in a corresponding decrease in the inflation dollar amount. Using 2008 as an example, from Exhibit 170 Attachment the Commission has calculated what it anticipated the inflation reduction should have been for 2008 by establishing a "base amount" without inflation, ($157,172 - $15,653 = $141,519) then increasing the "base" amount by 10.0 percent ($141,519 x 1.10 = $155,671). Subtracting the

original amount by the new amount ($157,172 – $155,671 = $1,501) results in an amount of $1.5 million, which the Commission anticipated as the capital inflation reduction for contractors.

48. The Commission recognizes that since the preparation of Exhibit 0170 Attachment, there have been updates to the forecast total amounts. The Commission has outlined these updates in the table below, and the anticipated reductions for contractor inflation that would apply:

Table 4. Commission's Expectation of Inflationary Reductions for Capital Contractor Amounts

		2008		2009		Source
		($000)	Inflation %	($000)	Inflation %	
Supply Dollar		157,172	11.06	158,757	17.90	Exhibit 0170 Attachment
Updated Supply Dollar	(1)	156,701	10.58	157,952	17.90	Exhibit 0170 Update
Less Updated Inflation Dollar		14,989		23,984		
Base Amount		141,712		133,968		
Plus Approved Inflation Amount		14,171	10.00	6,698	5.00	Decision 2008-113
Commission Supply Dollar	(2)	155,883		140,666		
Commission Calculated Reduction		818		17,286		(1) – (2)
AG Supply Dollar Reduction		(1,781)		15,029		Summary of Capital Adjustments Attachment
Further Reduction Required		2,599		2,257		

49. The Commission directs AG in the Second Refiling to incorporate the above noted reductions and update all appropriate schedules and categories to reflect these changes.

3.5 General Materials and Supplies - Inflation of 3.5% - Direction 6

50. The Commission issued the following Direction to AG:

> 6. The Commission notes that the expert witness [sic] both considered that it was unlikely that inflation for this category would reach 5%. The Commission has reviewed the UCA materials and supplies inflation forecast of 3.5%, and finds this to be a reasonable estimator of inflation for 2008 and 2009. Therefore the Commission directs AG to apply general materials and supply inflation rate of 3.5% for 2008 and 2009 to the appropriate amounts in the refiling.

51. In the Compliance Filing AG stated that by applying the approved inflation rate of 3.5 percent the 2008 and 2009 O&M expenses would be reduced by $770,000 and $1,579,000, respectively. These values were arrived at by first deducting operating supplies with a unique price escalator or inflation rate and then adjusting the remainder, namely General Material and Supplies, to reflect a 3.5 percent inflation rate.

52. In Argument, CCA concurred with AG's reductions, although CCA calculated values that were $7,000 less for both 2008 and 2009.

53. UCA disagreed with CCA's conclusion, though it appears to the Commission that the subject of UCA's disagreement was with the fact that the reductions only addressed Direction 6 and did not include a reduction for other O&M supplies, which UCA considered was intended by Directions 4 and 5.

54. In the Commission's second series of information requests,[8] AG was questioned about the calculation it had provided in the Attachment to its response to Direction 6. The Commission sought an explanation for a difference of $804,000 in 2009, which it had identified in the information request. AG explained that the difference was due to growth in supplies expense over and above inflation and to customer growth.

55. It appears to the Commission, from the analysis of the data on the record of this proceeding and the GRA that the incremental or marginal costs associated with materials and supplies based on customer additions during the test period are decreasing. In general, the Commission considers that decreasing marginal costs are a benefit to customers. The Commission also accepts AG's explanation that the difference of $804,000 is due to growth. The Commission considers that AG has satisfied its burden of proof in this regard.

56. Consequently, the Commission will not issue further directions to AG with respect to O&M expenses for General Materials and Supplies. However, the Commission directs AG in the Second Refiling to apply the adjustments as submitted in the Attachment to UCA-AG-7(a). On this basis, the Commission considers AG to be in compliance with this Direction.

3.6 Urban Mains Replacement - Reduction and Inflation – Directions 11 and 12

57. The Commission issued the following Directions to AG:

> 11. With respect to urban mains replacement in 2008, the Commission finds that the 8% price reduction due to the entry of two new contractors in Edmonton is not a productivity improvement as suggested by AG, and any cost reductions associated with this should be reflected in the costs for 2008 and 2009. Therefore the Commission directs AG in the refiling to appropriately reflect the 8% price reduction associated with the new contract pricing applicable to urban mains replacement and refile the corresponding schedules highlighting this change.
>
> 12. However, an issue of concern is the inflation factor used by AG to determine the amount of costs used in forecasting its urban mains replacement program. In regard to the inflation rates used by AG to determine its forecast costs of urban mains replacement for 2008 and 2009, the Commission considers that AG should use those rates s approved by the Commissions on the appropriate rates of inflation as set out in Section 5. Accordingly, the Commission directs AG, in its refiling to adjust the inflation factors used in forecasting costs for urban mains replacement using the rates of inflation approved by the Commission in Section 5 of this Decision.

58. In the Compliance Filing AG stated that the 8.0 percent reduction described in Direction 11 had been included in the contractor inflation adjustments and in the Summary of Capital Expenditure Adjustments,[9] as part of AG's compliance with Direction 4. Further, AG stated that it had adjusted its forecast for Urban Mains Replacement using the inflation rates approved by the Commission.

59. UCA submitted that the price reduction attributable to the entry of two new contractors in the Edmonton market in 2008 should be the $2.6 million reduction noted in AG's Rebuttal

[8] Exhibit 39.01, Commission Information Request No. 2 to AG
[9] Exhibit 1.00, Compliance Filing, Summary of Capital Adjustments Section

Evidence[10] and in Decision 2008-113 and should not be the 8.0 percent reduction which AG has relied upon. UCA stated that the same $2.6 million reduction should also apply in 2009, rather than the 8.0 percent reduction utilized by AG, and that these amounts should replace the $876,000 in 2008 and the $1,225,000 in 2009 as calculated by AG in UCA-AG-8. UCA submitted that the reductions in the forecast inflation rate as directed in Direction 12 should be those which were set out in Section 5 of Decision 2008-113, which dealt with inflation.

60. CCA referred to its argument on Commission Direction 4 in addressing Commission Directions 11 and 12, and concluded that it was not able to reconcile the details in the Summary of Capital Expenditure Adjustments with the details provided in AUC-AG-11. CCA recommended that AG should be required to more fully explain these adjustments in connection with Directions 11 and 12.

61. In arguing that it had complied with Directions 11 and 12, AG stated that for AG North, the 2008 updated forecast costs were reduced by 8.0 percent with no further reduction made for inflation because the updated costs reflected current 2008 pricing. With respect to 2009, AG stated that the updated forecast was also reduced by 8.0 percent and then adjusted downwards to reflect the approved inflation.

62. The Commission notes that in AG's Summary of Capital Expenditure Adjustments, no adjustments were shown to have occurred in relation to Direction 11 (Urban Mains Replacement), and that AG asserted that the relevant adjustments were included as part of Direction 4 (contractor services).

63. In reviewing the background associated with Directions 11 and 12, the Commission notes that in AG's Rebuttal Evidence filed in the GRA,[11] AG provided the following costs for mains replacement work:[12]

Table 5. AG Forecast of Urban Mains Replacement Costs

	AG North ($)	AG South ($)	Total ($)
2008	10,950,000	1,166,000	12,116,000
2009	15,316,000	4,013,000	19,329,000

64. AG went on to state in its Rebuttal Evidence, that it had attracted two out-of-province contractors to the Edmonton market, resulting in a contractor price decrease for mains replacement in Edmonton. As a result, AG stated that it expected that the work in 2008 in AG North service territory would be completed for $8.3 million.[13]

65. The Commission notes that in the Attachment to AG's response to AUC-AG-2 in this proceeding, at page 2 of 48, AG set out an updated 2008 cost of $10,950,000 for Total Urban Main Replacements in Edmonton, which does not appear to reflect the updated forecast amount of $8.3 million submitted by AG in its Rebuttal Evidence.

[10] Exhibit 143.01 from the AG 2008-2009 GRA Proceeding, EPS ID 11
[11] Exhibit 143.01 from the AG 2008-2009 GRA Proceeding, EPS ID 11
[12] Ibid, page 29
[13] Ibid, page 30

66. It appears to the Commission that there is some confusion regarding the intent of Direction 11. The Commission directed the 8.0 percent reduction in Decision 2008-113[14] in the context of the Consumer Group's,[15] argument regarding the 8.0 percent contractor price decrease for mains replacement in Edmonton in 2008 compared with 2007.[16] It appears that the 8.0 percent reduction was first discussed by AG, in response to PICA-AG-41(b)[17] wherein AG indicated that the overall average decrease in contractor installation costs for awarded mains replacement contractors in Edmonton was 8.0 percent in 2008. Further, the Attachment to PICA-AG-41 indicates project costs of $8.3 million in 2008 for the Edmonton business unit. Consequently, the Commission considers that the 8.0 percent reduction referred to in Direction 11 was intended to reflect the resulting updated 2008 forecast for urban mains replacement of $8.3 million. On this basis, the Commission directs AG in the Second Refiling to reduce the 2008 Total Urban Main Replacements forecast costs in the AG North service territory forecast from $10,950,000 to $8,300,000.

67. The Commission expects that the two new contractors added in 2008 would also impact the Urban Main Replacement costs forecast for 2009. While, the Commission recognizes that there is no direct information, as that presented in AG's Rebuttal Evidence[18] for 2008 with respect to the impact in 2009 of the two new contractors, the Commission notes in Transcript Volume 2, page 345, it was the expectation of AG that the new contractors would lead to cost reductions in 2009.[19] Therefore, the Commission directs AG in the Second Refiling to reduce the 2009 Total Urban Main Replacements forecast costs in the AG North service territory from $15,316,000 to $12,666,000, a reduction of $2,650,000, which reflects the 2008 reduction discussed above.

3.7 Valve and Vault Replacements (Approved Inflation) – Direction 13

68. The Commission issued the following Direction to AG:

> 13. The Commission finds that there is no issue with respect to the quantities involved with AG's forecast of valve and vault replacements during 2008 and 2009 and therefore approves that part of AG's program. However, the issue of concern to interveners is the costing of replacements with an acceptable rate of inflation. In this regard, the Commission considers that the rates of inflation used by AG to forecast costs for valve and vault replacements for 2008 and 2009 are those approved by the Commission on the appropriate rates of inflation as set out in Section 5. Accordingly, the Commission directs AG, in its refiling to adjust the inflation factors used in forecasting unit costs for valve and vault replacements using the rates of inflation approved by the Commission in Section 5 of this Decision.

69. AG indicated in the Compliance Filing that it had adjusted its forecast for valve and vault replacements using the inflation rates approved by the Commission, and that these adjustments

14 Decision 2008-113, page 38

15 Comprised of Consumers' Coalition of Alberta, Public Institutional Consumers of Alberta, and Alberta Sugar Beet Growers Association and Potato Growers of Alberta

16 CG Argument page 118 filed on July 7, 2008 (no Exhibit #) from the AG 2008-2009 GRA Proceeding, EPS ID 11

17 Exhibit 191.02 from the AG 2008-2009 GRA Proceeding, EPS ID 11

18 Exhibit 143.01from the AG 2008-2009 GRA Proceeding, EPS ID 11

19 Hearing Transcript from AG 2008-2009 GRA Proceeding, EPS ID 11

were included in the Summary of Capital Expenditure Adjustments as part of Commission Directions 1, 4, 5 and 6.

70. In its comments regarding Direction 13, CCA referred to its views on Direction 4. In particular, in relation to Direction 4, CCA had commented on contractor inflation associated with the proposed operating centres and noted that it was not able to reconcile the details in the Summary of Capital Expenditure Adjustments with the details provided in AUC-AG-11. CCA again recommended that AG should be required to more fully explain these adjustments.

71. AG submitted that it had responded to CCA's concerns regarding Direction 13 in its section of Reply Argument, which addressed Directions 4, 5 and 6. AG also noted that the UCA did not express any concern regarding this Direction.

72. Subject to any adjustments arising out of the Commission Directions with respect to inflation in Sections 3.1 to 3.5 of this Decision, the Commission considers that AG has complied with Direction 13.

3.8 New Operating Centres (Approved Inflation) – Direction 17

73. The Commission issued the following direction to AG:

> 17. With respect to the amount of costs to be included in rate base for the four operating centres, the Commission notes that it approved inflation rates for the test period in Section 5 of this Decision. The Commission's approval of the final amount of costs forecast for each project is subject to the adjustment of the amounts to the approved inflation rates. Accordingly, the Commission directs AG in the refiling to adjust the inflation factors used in forecasting costs for the Viking, North Edmonton, Ft. McMurray and Airdrie operating centres using the rates of inflation approved by the Commission in Section 5 of this Decision. Given that the North Edmonton OC is a current project for 2008, the Commission agrees with AG that there will be no adjustment for inflation in 2008.

74. AG submitted that it had reflected this Direction for the Airdrie Operating Centre in the Summary of Capital Expenditure Adjustments. With respect to the Viking and Fort McMurray Operating Centres however, AG stated that these two projects were current projects with lump sum contracts and that it had therefore not adjusted the inflation rate associated with them.

75. CCA submitted that AG had not complied with this Direction, stating that costs associated with each of the Viking, North Edmonton, and Fort McMurray centres should be adjusted to comply with the Commission's determinations in Section 5 of Decision 2008-113. CCA submitted that the issue of lump sum contracts was immaterial with respect to the Compliance Filing.

76. AG responded that CCA's submission had not provided a recommendation to the Commission and submitted that AG had dealt with this issue in complying with Commission Directions 4, 5 and 6.[20]

77. The Commission has reviewed CCA's argument regarding Direction 17 and does not agree with CCA's position. In Decision 2008-113, the Commission concluded that the inflation factors for contract services and general materials and supplies, which included costs for

[20] Exhibit 54.01, AG Reply Argument, page 12

operating centres, should be adjusted. To the extent that there was no inflation included in the forecast for an operating centre, an inflation adjustment was not anticipated by the Commission.

78. The Commission has reviewed the Attachment to AUC-AG-2 and notes that AG has made inflation adjustments to those forecasts that had inflationary components. The Commission is satisfied with the inflation adjustments associated with the operating centres. However, in reviewing these adjustments, the Commission notes that with respect to the Edmonton Operating Centre, in 2008 and 2009, there were updates to the forecast costs associated with this project. In applying the inflation adjustments, it appears to the Commission that AG has used its initially filed forecasts rather than the updated forecast amounts. This highlights a broader concern of the Commission, namely that the most up-to-date forecasts should be used in the determination of the appropriate inflation adjustments in all categories. The Commission therefore directs AG in the Second Refiling to confirm that the most up-to-date filed forecasts have been used as the basis upon which to calculate all inflation adjustments.

3.9 Full Time Equivalent/Manpower (Meter Reading) – Direction 26

79. The Commission issued the following Direction to AG:

> 26. The Commission is not convinced the productivity improvements as a result of the MRRP [Meter Relocation & Replacement Project] have been included in the test period. AG stated in reply argument that “These improvements are generated when ATCO Gas adjusts meter routes after the MRRP work is completed in areas.” This statement does not specifically state the improvements are included. The Commission accepts the submissions of the UCA and the CG to reduce the number of additional meter readers by one in 2008 and two in 2009 (per the UCA recommendation) to allow for improvements from MRRP. Therefore the Commission directs AG in the refiling to reduce the O&M for meter reading, Account 712, as noted by the UCA as $50,000 in 2008 and $150,000 in 2009. (footnote omitted)

80. In its response to Direction 26, AG submitted that it had incorporated the reduction directed above in conjunction with its compliance with Direction 37, which dealt with Meter Reading (Account 712).

81. CCA stated that it considered that AG had not complied with Direction 26 and in particular, had not removed the associated costs such as vehicle and training costs.

82. AG stated that it had addressed the latter issue raised by CCA in its Reply Argument under “O&M Adjustments”.

83. The Commission considers that there may be some confusion regarding Direction 26 resulting from a statement made by the Commission in Decision 2008-113 relating to Direction 37, namely:

> The Commission notes the CG’s recommendation to reduce the meter reading FTEs by one in each test year. The Commission considers that it will not be necessary to include such a reduction in addition to the above reduction ordered by the Commission. The above noted reduction includes the effect of the recommended FTE reduction thereby making it redundant.[21]

[21] Decision 2008-113, page 79

84. The Commission made the above comment in relation to Meter Reading, as it related to the increase in expenses associated with supervisors, clerks and meter readers driven by the growth in the number of customers. In contrast, Direction 26 was made in relation to the number of meter readers that should be allowed on the basis of the productivity gains resulting from the MRRP. Directions 26 and 37 were not duplicative as they addressed two different aspects of meter reading. It is clear to the Commission from the Argument and Reply submitted that the reduction intended in Direction 26, relating to productivity gains resulting from the MRRP, has not been complied with. Accordingly, the Commission directs AG, in the Second Refiling, to comply with Direction 26 as originally stated: "to reduce the O&M for meter reading, Account 712, as noted by UCA as $50,000 in 2008 and $150,000 in 2009."

3.10 Full Time Equivalent/Manpower (Blue Flame Kitchen) – Directions 27 and 28

85. The Commission issued the following Directions to AG with respect to the Blue Flame Kitchen (BFK):

> 27. The Commission understands AG's position that the BFK provides an important contact point and is part of the on-going communication efforts with AG's customers to disseminate safety and conservation messages to its customers. The Commission accepts that in respect of BFK, there is growth in the number of customers; however, it does not appear that telephone calls have increased since 2005. Only the internet contact has increased significantly. The Commission is of the view that the lack of increase in personal contact does not support the addition of the 1.7 FTEs. The Commission concludes that the increases to O&M included in the test years by AG are not warranted. Therefore the Commission directs AG in the refiling to adjust the O&M forecast for 2008 and 2009 to equal the budget levels of 2007, adjusted for inflation only, i.e. $800,000 (2007) which included 12 full and part time positions. To be clear, the Commission is not addressing the specific number of BFK staff to be included, nor the location where the staff will be employed. The Commission is only stipulating the maximum amount that can be included in the revenue requirement for the test years.
>
> 28. In a related matter the Commission notes that the BFK does not report to a department under the President of AG, but rather to a Vice President outside AG. This organizational arrangement raises a concern as to the BFK's relationship to other parts of the ATCO organization. The Commission directs AG in the refiling to address this concern demonstrating to the Commission that the BFK's duties are not performed for the benefit of affiliated companies. If they are, then the Commission expects that AG should be able to show revenue for any work done for others.

86. In the Compliance Filing AG stated that it had included inflation adjustments when it addressed Directions 1, 2 and 6, and that the adjustment provided in response to Direction 27 was for growth only. Subsequently, AG made further reductions for growth of $36,000 in 2008 and $76,000 in 2009 after discovering an error in its original calculations.[22]

[22] See Exhibit 43.01, AG response to AUC-AG-15

87. CCA considered that AG had not complied with Direction 27 to apply the approved inflation rates to the 2007 budget amount of $800,000 to arrive at the approved expenses for 2008 and 2009.

88. The Commission considers that AG's presentation of the adjustments arising from Direction 27 in response to AUC-AG-15 could be interpreted such that it would appear that the adjustments did not take into account the difference in inflation rates between those initially used by AG, and those approved by the Commission. However, AG's explanation that such adjustments were included under Directions 1, 2 and 6, and as shown in the Attachment to AG's response to AUC-AG-6, is satisfactory to the Commission. The Commission expects that a future reporting of the BFK forecast expenses will indicate totals of $834,000 and $871,000 for 2008 and 2009 respectively, as shown on the Attachment to AUC-AG-15.

89. Accordingly, the Commission accepts the additional reductions as provided by AG in AUC-AG-15, and considers that AG is in compliance with Direction 27.

90. In the Compliance Filing,[23] AG indicated that as a result of the reduction in expenses for the BFK, as directed by the Commission, AG had also reduced the forecast revenues for 2008 and 2009. The Commission notes the revised revenue forecast for 2008 and 2009 was based on the 2006 actual revenues of $141,000. However, since 2007 expenses have been used as the base to forecast the test year expenses, then in the test years the revenues also should be based on the 2007 revenues of $163,000. Accordingly, the Commission directs AG in the Second Refiling to revise the total revenues for 2008 and 2009 to be $163,000 in each year.

91. With respect to Direction 28, AG explained in its Compliance Filing that the BFK provides services to "ATCO Gas customers only" and reconfirmed this provision of service in its response to AUC-AG-7.

92. CCA was not convinced that the duties performed by the BFK were for the benefit of AG customers only, stating that AG had provided no evidence to support the claim. CCA considered that AG should be directed to address the issue in its next GRA.

93. The Commission directs AG in the Second Refiling to confirm that in stating that "the BFK provides services to ATCO Gas customers only", AG is not including its affiliates as ATCO Gas customers.

94. Alternatively, if AG does include its affiliates in this category, the Commission directs AG in the Second Refiling or next GRA, as appropriate, to report any transaction as an affiliate transaction, and to account for the revenue to be received from the affiliate(s) that are provided with the BFK service as an offset to AG's revenue requirement.

3.11 Variable Pay Program – Direction 29

95. The Commission issued the following Direction to AG:

> 29. On this basis, the Commission directs AG in the refiling to confirm the calculations above, and make the necessary adjustment to the forecast revenue requirement to reflect these amounts.

[23] Ex. 1.00, Compliance Filing, Revenue Summary, paragraph 4

96. In the Compliance Filing AG provided the actual data for 2007 and corrected an error in Table 17 of Decision 2008-113 that resulted in the closing balance for 2007 being a credit of $99,000, rather than a debit of $164,000 as originally filed in the GRA.

97. In UCA-AG-14, the UCA questioned whether AG had made the necessary adjustments of $172,000 to O&M and $92,000 to capital for 2009 as a result of the new closing balance.

98. In response, AG admitted the oversight, and advised that it had incorporated the adjustments in its Compliance Update.

99. The Commission acknowledges the corrections and updates made by AG and considers that AG is in compliance with Direction 29.

3.12 Head Office Expenses (Corporate Office-Supplies and Corporate Secretary/Head Office Inflation) – Directions 33 and 35

100. The Commission issued the following Directions to AG:

> 33. With respect to the Corporate Office-Supplies & Corporate Secretary expenses the Commission does not accept nor is it apparent that such increases are required in the face of evidence presented. The Commission agrees with the UCA that the management of AG's real estate was being done by AG and therefore a saving should result if the activity was transferred to Head Office; this saving has not been identified. If Head Office were performing the activity, an inflationary increase is all that is warranted. The Commission directs AG to restate the expenses in the refiling using the approved inflation rates since 2007 only.
>
> 35. The Commission has not allowed certain increases in Head Office expenses, but for clarity, the existing expenses and those permitted can be increased over those in 2007 on the basis of inflation. The inflation factor to be used was discussed in Section 5 of this Decision. Therefore the Commission directs AG in the refiling to apply the approved inflation factor to re-estimate the test year expenses for Head Office. Further, based on the following table, the Commission directs AG in the refiling to reduce its Head Office expenses by the amount indicated. The Commission also considers that these reductions should not be reallocated to the utility.

101. AG submitted that it had restated the subject expenses using approved inflation rates since 2007 and reducing certain of the Head Office Expenses as directed. AG stated that the reductions to Real Estate Management, Cash Management, Human Resources, Corporate Communications and the Winter Olympics had also been incorporated as directed and that these adjustments resulted in reductions of $783,000 and $875,000 for 2008 and 2009, respectively. AG indicated that these adjustments were included in the Summary of O&M Adjustments.[24]

102. In its Argument,[25] the UCA submitted that the Commission should direct AG to:

1. revise its Compliance Filing to include growth in specific reductions of $50,000 for 2009,

[24] Exhibit 1.00, Compliance Filing, Summary of O&M Adjustments Attachment
[25] Exhibit 50.02, UCA Argument, page 14

2. revise its Compliance Filing to reduce head office by $559,000 for 2008 and $592,000 for 2009 to reflect the Commission's direction on page 76 of Decision 2008-113, and
3. clarify the record and direct AG to include the correction identified in response to UCA-AG 15 (a) in the final revenue requirement.

103. CCA noted that in response to Commission Directions 33, 34, and 35, AG calculated the reduction to the 2009 increase as the impact in 2009,[26] however, this approach inadvertently missed the impact of the 2008 reduction on 2009. As a result, CCA submitted that the 2009 reduction was understated by $783,000 since it did not include the 2008 reduction. CCA recommended that AG's refiling of the Compliance Filing reflect this further adjustment of $783,000 in respect of 2009.

104. AG disagreed with UCA's argument that there was growth in the amounts between 2008 and 2009, and that a specific adjustment of $50,000 was required. AG submitted that the increase to Head Office Expenses in 2009 of $1,156,000 was attributed to inflation of $567,000 and other of $589,000, of which $596,000 was attributable to the Winter Olympics. Further, AG submitted that the increases for Human Resources and Corporate Communications shown in the Compliance Filing - Commission Directions 33, 34 and 35 Attachment 2, indicates that inflation was the only requested increase.

105. AG submitted that the Commission's wording in Direction 35 included the words "and those permitted", which did not support UCA's argument that cost increases are limited to inflation.

106. AG asserted that in its Compliance Update it had incorporated the additional reduction of $783,000 to the 2009 forecast as discussed by CCA.

107. The Commission has reviewed AG's reductions to Head Office Expenses for inflation and considers that AG is in compliance with the Directions in this regard. The Commission does not agree with the UCA's arguments that additional deductions for growth need to be applied.

108. The Commission has reviewed the reduction ordered for expenses for Head Office Expenses, as set out in Table 22 of Decision 2008-113. In Attachment 1 to Commission Directions 33, 34 and 35,[27] it is clear to the Commission that AG has implemented the reductions as directed for 2008. However, in Attachment 2 to Commission Directions 33, 34 and 35,[28] it appears to the Commission that AG has only applied the reduction directed for the 2010 Winter Olympics. The reductions associated with Cash Management, Human Resources and Corporate Communications do not appear. The Commission directs AG in the Second Refiling to apply the reductions as directed in these categories.

109. The Commission notes that in the Compliance Update, AG has incorporated the additional $783,000 reduction as noted by UCA and CCA. The Commission accepts this adjustment and considers that no further directions on this matter are required.

26 Exhibit 51.01, CCA Argument, pages 22-23
27 Exhibit 1.00, Compliance Filing, Response to Commission Directions 33, 34, 35
28 Ibid

3.13 Head Office Expenses (2010 Winter Olympics) – Direction 34

110. In the Compliance Filing, AG confirmed that it had removed all of the expenses related to the 2010 Winter Olympics. Consequently, the Commission considers that AG is in compliance with this Direction.

3.14 Meter Reading (Account 712) – Direction 37

111. The Commission issued the following Direction to AG:

> 37. Therefore, the Commission directs AG in the refiling to include the above reductions to meter reading and bill delivery expenses, Account 712.

112. While no issue was specifically raised with AG's response to this Direction by interveners, Direction 37 was mentioned in conjunction with Direction 26 (related to Full Time Equivalent/Manpower (Meter Reading)), in which AG claimed that compliance with Direction 26 was included in Direction 37.

113. As set out by the Commission in its discussion of Direction 26 above, the Commission considers that each Direction had a specific focus and that the focus of Direction 37 was in relation to customer growth.

114. It is in regard to this customer growth aspect that the response to Direction 37 by AG is accepted, and the Commission considers AG to be in compliance with this Direction.

3.15 IT and CC&B Placeholders – Direction 42

115. The Commission issued the following Direction to AG:

> 42. The estimated fixed volumes for IT [Information Technology] and CC&B [Customer Care & Billing] are approved for 2008 and 2009 to be used together with the pricing which is to be approved in the Evergreen proceeding. In addition the Commission also approves, as a placeholder for 2008, the 2008 opening capital balances as originally filed in the Application. The Commission directs AG in the refiling to reflect these values as approved.

116. AG indicated that it had included in the refiling as a placeholder for 2008, the 2008 opening IT and CC&B capital balances which include the 2007 actual results.

117. Given that the Commission directed AG to use the 2008 opening capital balances as originally filed, it appears that AG has not complied with this direction, given that 2007 actuals have been used.

118. The Commission directs AG in the Second Refiling to clarify its response to this Direction, by providing sufficient documentation and explanations that will clearly demonstrate that AG has used the originally filed 2008 opening balances for IT and CC&B capital.

119. The Commission has reviewed the information contained in the Placeholders Summary as submitted in the Compliance filing, and notes that the AG Totals do not correspond to the AG North and AG South amounts. The Commission directs AG in the Second Refiling to address this issue.

3.16 Single Revenue Requirement – Direction 55

120. The Commission did not specifically provide a direction on page 113 of Decision 2008-113 with respect to the Single Revenue Requirement proposal, but AG incorporated the following statement made by the Commission as Direction 55:

> For O&M costs, AG proposed that it would allocate costs between North and South based on a weighted customer allocation model developed by AG. Based on the information filed by AG, the Commission is not satisfied that the AG weighted customer allocation model is robust enough to capture the differences in costs between the North and South for rate making purposes. There are many factors in addition to customer numbers that affect operating and maintenance costs and the Commission wants to ensure that those cost differences are recognized for Phase II purposes. **In order for the Commission to allow AG to bring the operating and maintenance costs of AG together in one set of books for its next Phase I application, the Commission will require that AG first satisfy the Commission that it has established a cost allocation method capable of capturing costs causal to the North and South systems.** The Commission is aware that widely accepted activity based costing approaches and techniques for operating and maintenance costs that would capture costs causal to the North and South systems are available. **AG may propose a process and timing for the filing of its proposed operating and maintenance cost allocation method for review by the Commission.** (emphasis added by AG)

121. In its Compliance Filing AG made the following statement regarding Direction 55:

> At the current time **ATCO Gas has been unable to identify any alternative allocation methods to replace the Weighted Customer Allocation method.** In the event that alternative allocation methods are identified in the future ATCO Gas will bring them forward for review in either a Phase I or a Phase II proceeding. ATCO Gas proposes to continue to separately track the operating costs charged to those accounts where the Weighted Customer Allocation method was proposed to be used. ATCO Gas intends to use the **other allocation methods** for operating costs as indicated in the GRA filing. Similar allocation methods are already being used for most if not all of these remaining accounts.
>
> ATCO Gas intends to commence reporting its financial results and utility information on the basis of one revenue requirement commencing with the 2008 financial results. This will result in the discontinuance of the preparation and audit of separate financial statements for the North and the South. ATCO Gas has attached a copy of the revised policy 10.08 which will replace the current policies 10.08 and 10.09. (emphasis added by AG)

122. However, in its Argument AG made the following statement:[29]

> In Decision 2008-113 the Commission approved the movement to one revenue requirement for ATCO Gas, subject to a concern regarding the use of the Weighted Customer methodology to allocate certain operating costs. ATCO Gas filed an updated Policy 10.08 in the response to Commission directive 55 that clearly lays out the revenues and costs that it will continue to track separately between the north and the south, including those accounts that it was proposing to allocate on the basis of the Weighted Customer methodology. **Given that ATCO Gas is no longer proposing to use an allocation methodology for those accounts where the Weighted Customer methodology was originally proposed,** there should be no impediment to moving to one revenue requirement immediately. (emphasis added by AG)

123. It appears from these submissions that AG has now abandoned the Weighted Customer allocation methodology in favour of separately tracking certain accounts. The Commission considers this separate tracking to be a preferable approach.

124. For the purpose of clarifying AG's term, "other allocation methods", the Commission issued AUC-AG-18(a). AG responded with an attachment that indicated that the allocation methods in question were defined as being "Equal" (i.e. values are split 50/50 between AG North and AG South).

125. The Commission observed, from the Attachment to AUC-AG-18(a), that Account 713, Customer Billing and Accounting, was allocated on an "Equal" basis. In AUC-AG-18(d) the Commission asked for an explanation as to why Account 713 was not being tracked for AG North and AG South separately. AG responded that separate tracking would require that every function performed by ATCO I-Tek Business Services on behalf of AG would need to be monitored and tracked, which would attract additional costs for little benefit.

126. The Commission considers there may be other alternatives to tracking or applying an equal allocation that would be acceptable without increasing the costs; for example, by using the number of customers. The expenses associated with Customer Billing and Accounting, as an example, suggest that costs should not be equally divided between AG North and AG South, given the different parameters of their service territories. The Commission directs AG in the Second Refiling to provide further discussion on this issue.

3.17 Balance of Directions from Decision 2008-113

127. With regard to the balance of the Directions not specifically discussed herein and not brought forward to a future GRA, the submissions by AG are accepted and the Commission considers that AG is in compliance with Directions 7, 9, 14, 18, 19, 21, 22, 24, 25, 30, 31, 32, 38, 39, 41, 47, 48, 51 and 54. Directions 10, 15, 16 and 20 will be considered to have been complied with once that AG confirms its compliance with Directions 1 through 6.

[29] Exhibit 49.01, AG Argument, page 3

4 OTHER MATTERS

4.1 Account Numbers 672, 674 and 676

128. In AUC-AG-18(c) the Commission asked why the undefined and unassigned Account 672 could not be used for Supervision - Customer Service, rather than Account 676 (Compressor) as proposed by AG. AG did not respond directly to this question but indicated it was now charging amounts to Account 674 (Service On Customers' Premises), that had been previously charged to Account 676.

129. As a result of AG's response, the Commission considers that there is some ambiguity as to whether or not Supervision – Customer Service will be charged to a separate account. However, if AG is still proposing to use a separate account as was originally indicated, the Commission directs AG at the next GRA Phase I or the Second Refiling as may be applicable to use the unassigned Account 672 for Supervision – Customer Service and highlight its compliance to this direction.

4.2 Deferral Account for Head Office Rent

130. In its Application for the 2008-2009 GRA, AG requested that the Commission approve the use of a deferral account for the Head Office Rent, which, at the time, was in the process of being negotiated. In response to AUC-AG-1, AG confirmed that, even though the negotiations were concluded for both the Milner Building and ATCO Centre Edmonton leases, the use of a deferral account was the best alternative in as much as there was no evidence supporting the rental rates on the record that could be approved.

131. The Commission evaluates the use of a deferral account on a case-by-case basis. With respect to Head Office Rent, the Commission considers that in these unique circumstances since there is insufficient evidence to support an amount to be approved at this time, the use of a deferral account is warranted to mitigate any harm to customers or the Applicant.

132. The Commission notes that there were no objections from interested parties on this issue on the record of the GRA proceeding. Accordingly, the Commission approves a temporary Head Office Rent Deferral Account on this basis and directs AG at its next GRA to present the deferral account for approval of rental rates, reconciliation and closure.

5 ORDER

133. IT IS HEREBY ORDERED THAT:

(1) ATCO Gas shall refile its 2008-2009 General Rate Compliance Application to reflect the findings, conclusions and directions in this Decision by September 1, 2009.

Dated in Calgary, Alberta on July 28, 2009.

ALBERTA UTILITIES COMMISSION

(original signed by)

Willie Grieve
Chair

(original signed by)

N. Allen Maydonik, Q.C.
Commissioner

(original signed by)

Bill Lyttle
Commissioner

APPENDIX 1 – PROCEEDING PARTICIPANTS

Name of Organization (Abbreviation) Counsel or Representative (APPLICANTS)
ATCO Gas (AG) B. Bale
Office of the Utilities Consumer Advocate (UCA) A. Bryan
Consumers' Coalition of Alberta (CCA) J. Wachowich
BP Canada Energy Company C. Worthy

Alberta Utilities Commission Commission Panel W. Grieve, Chair N.A. Maydonik, Q.C., Commissioner B. Lyttle, Commissioner Commission Staff V. Slawinski (Commission Counsel) C. Burt D. Cherniwchan K. Schultz D. Weir R. Armstrong, P. Eng

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. With respect to growth positions, the Commission accepts AG's argument that there would be no implicit inflation component in growth positions as these amounts are estimates based on existing pay levels. On this basis, the Commission considers that no further action is required on this issue. However, the Commission directs AG in its next and subsequent GRAs to provide greater transparency around the calculation of the step and growth increases associated with its labour components. .... Paragraph 20

2. Based on the Commission's calculations, AG is required to further reduce the 2009 supervisory labour forecast by $290,000. The Commission directs AG to re-file its revenue requirement and supporting schedules, incorporating this change, in a second compliance filing (Second Refiling). .... Paragraph 29

3. Therefore the Commission directs AG in the Second Refiling to provide detailed calculations of the resulting impacts on the remainder of its forecasts that have contract services and general materials and supplies inflation components using the methodology outlined above to calculate AG's 2009 supervisory labour forecast. Further, the Commission directs AG in the Second Refiling to further adjust its 2009 revenue requirement to reflect the forecasts adjusted in this manner. The Commission considers that these calculations will apply to both capital and O&M forecasts as discussed in Section 3.4 of this Decision. .... Paragraph 32

4. Further, the Commission directs AG in the Second Refiling to further adjust its 2009 revenue requirement to reflect the forecasts adjusted in this manner. The Commission considers that these calculations will apply to both capital and O&M forecasts as discussed in Section 3.4 of this Decision. .... Paragraph 33

5. The Commission understands UCA's Argument that if, for example, a contractor had a two year contract with a built-in inflation factor for the second year, to the extent that inflation for 2009 was increased from 0.0 percent to the AUC-approved rate of 5.0 percent, double-counting would have occurred. The Commission agrees with this position and, to the extent that double counting of this nature has occurred, the Commission directs AG in the Second Refiling to confirm that no double-counting of this type is included in revenue requirement. .... Paragraph 37

6. To the degree that there are 2008 and 2009 contractor expenses in O&M that have not been reduced based on the approved inflation forecasts, the Commission directs AG in the Second Refiling to identify these amounts and calculate the appropriate reduction based on the methodology discussed in paragraph 45. .... Paragraph 45

7. The Commission directs AG in the Second Refiling to incorporate the above noted reductions and update all appropriate schedules and categories to reflect these changes .... Paragraph 49

12. The Commission made the above comment in relation to Meter Reading, as it related to the increase in expenses associated with supervisors, clerks and meter readers driven by the growth in the number of customers. In contrast, Direction 26 was made in relation to the number of meter readers that should be allowed on the basis of the productivity gains resulting from the MRRP. Directions 26 and 37 were not duplicative as they addressed two different aspects of meter reading. It is clear to the Commission from the Argument and Reply submitted that the reduction intended in Direction 26, relating to productivity gains resulting from the MRRP, has not been complied with. Accordingly, the Commission directs AG, in the Second Refiling, to comply with Direction 26 as originally stated: "to reduce the O&M for meter reading, Account 712, as noted by UCA as $50,000 in 2008 and $150,000 in 2009." .... Paragraph 84

13. In the Compliance Filing, AG indicated that as a result of the reduction in expenses for the BFK, as directed by the Commission, AG had also reduced the forecast revenues for 2008 and 2009. The Commission notes the revised revenue forecast for 2008 and 2009 was based on the 2006 actual revenues of $141,000. However, since 2007 expenses have been used as the base to forecast the test year expenses, then in the test years the revenues also should be based on the 2007 revenues of $163,000. Accordingly, the Commission directs AG in the Second Refiling to revise the total revenues for 2008 and 2009 to be $163,000 in each year. .... Paragraph 90

14. The Commission directs AG in the Second Refiling to confirm that in stating that "the BFK provides services to ATCO Gas customers only", AG is not including its affiliates as ATCO Gas customers. .... Paragraph 93

15. Alternatively, if AG does include its affiliates in this category, the Commission directs AG in the Second Refiling or next GRA, as appropriate, to report any transaction as an affiliate transaction, and to account for the revenue to be received from the affiliate(s) that are provided with the BFK service as an offset to AG's revenue requirement. .... Paragraph 94

16. The Commission has reviewed the reduction ordered for expenses for Head Office Expenses, as set out in Table 22 of Decision 2008-113. In Attachment 1 to Commission Directions 33, 34 and 35, it is clear to the Commission that AG has implemented the reductions as directed for 2008. However, in Attachment 2 to Commission Directions 33, 34 and 35, it appears to the Commission that AG has only applied the reduction directed for the 2010 Winter Olympics. The reductions associated with Cash Management, Human Resources and Corporate Communications do not appear. The Commission directs AG in the Second Refiling to apply the reductions as directed in these categories. .... Paragraph 108

17. The Commission directs AG in the Second Refiling to clarify its response to this Direction, by providing sufficient documentation and explanations that will clearly demonstrate that AG has used the originally filed 2008 opening balances for IT and CC&B capital. .... Paragraph 118

18. The Commission has reviewed the information contained in the Placeholders Summary as submitted in the Compliance filing, and notes that the AG Totals do not correspond to the AG North and AG South amounts. The Commission directs AG in the Second Refiling to address this issue .... Paragraph 119

19. The Commission considers there may be other alternatives to tracking or applying an equal allocation that would be acceptable without increasing the costs; for example, by using the number of customers. The expenses associated with Customer Billing and Accounting, as an example, suggest that costs should not be equally divided between AG North and AG South, given the different parameters of their service territories. The Commission directs AG in the Second Refiling to provide further discussion on this issue.. Paragraph 126

20. As a result of AG’s response, the Commission considers that there is some ambiguity as to whether or not Supervision – Customer Service will be charged to a separate account. However, if AG is still proposing to use a separate account as was originally indicated, the Commission directs AG at the next GRA Phase I or the Second Refiling as may be applicable to use the unassigned Account 672 for Supervision – Customer Service and highlight its compliance to this direction.. Paragraph 129

21. The Commission notes that there were no objections from interested parties on this issue on the record of the GRA proceeding. Accordingly, the Commission approves a temporary Head Office Rent Deferral Account on this basis and directs AG at its next GRA to present the deferral account for approval of rental rates, reconciliation and closure... Paragraph 132