



# **ATCO Electric, ATCO Gas, and ATCO Pipelines (The ATCO Utilities)**

**Compliance Filings Arising from Board Decision  
2004-049 (Review of ATCO Executive  
Compensation Allocated to the ATCO Utilities)**

**September 7, 2004**

**ALBERTA ENERGY AND UTILITIES BOARD**

Decision 2004-076: ATCO Utilities

Compliance Filings Arising From Board Decision 2004-049

Application Nos. 1353975, 1353976, and 1354862

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## Contents

|            |  |          |
|------------|--|----------|
| <b>1</b>   | <b>INTRODUCTION.....</b>                 | <b>1</b> |
| <b>1.1</b> | <b>Background and Process .....</b>      | <b>1</b> |
| <b>2</b>   | <b>VIEWS OF THE ATCO UTILITIES .....</b> | <b>2</b> |
| <b>3</b>   | <b>VIEWS OF THE PARTIES.....</b>         | <b>3</b> |
| <b>4</b>   | <b>VIEWS OF THE BOARD.....</b>           | <b>4</b> |
| <b>5</b>   | <b>ORDER .....</b>                       | <b>5</b> |

## List of Tables

|                 |  |          |
|-----------------|--|----------|
| <b>Table 1.</b> | <b>2003 – 2004 Cost Allocation .....</b> | <b>3</b> |
|-----------------|--|----------|



## **1 INTRODUCTION**

The Board received filings from ATCO Gas<sup>1</sup> and ATCO Electric<sup>2</sup> on July 21, 2004, and from ATCO Pipelines<sup>3</sup> on July 28, 2004 (the Compliance Filings), including requests for approval of revised placeholder amounts for Executive Compensation as directed by the Board in [Decision 2004-049](#), dated June 24, 2004. In that Decision, the Board provided the ATCO Utilities with several directions including Directions No. 2, No. 3 and No. 6 to submit refilings of the placeholder amounts reflecting the following:

- Excluding the salary for the Co-Chairman and CEO (\$964,404) and the Chief Operating Officer (\$600,000) for the years 2003 and 2004 from the allocated costs, together with the associated benefit costs for these roles.<sup>4</sup>
- Including Ms. Spruin's salary and benefits for the test years.<sup>5</sup>
- Providing an appropriate amount for compensation for the position of non-executive Chairman over and above any amounts already reflected in the Board of Directors compensation included in the various general rate applications.<sup>6</sup>
- Indicating the appropriate amount of this non-executive Chairman compensation to be allocated to utility operations.<sup>7</sup>
- Using the shared cost allocation methodology approved in the various GRA Decisions, including any exclusion of flow-through commodity revenues from the allocation.<sup>8</sup>

In the refilings, the ATCO Utilities were requested to propose a process for dealing with the compliance with the Decision in respect of each of the ATCO Utilities.<sup>9</sup>

### **1.1 Background and Process**

By letter dated July 29, 2004, the Board provided notification of the Compliance Filings to all parties to the original application (No. 1310259), requesting parties that wished to comment on the Compliance Filings to file a submission by August 11, 2004. On August 11, 2004, the

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<sup>1</sup> Application No. 1353975

<sup>2</sup> Application No. 1353976

<sup>3</sup> Application No. 1354862

<sup>4</sup> Decision 2004-049 Direction No. 2 P42

<sup>5</sup> Decision 2004-049 Direction No. 2 P42

<sup>6</sup> Decision 2004-049 Direction No. 3 P43

<sup>7</sup> Decision 2004-049 Direction No. 3 P43

<sup>8</sup> Decision 2004-049 Direction No. 6 P44

<sup>9</sup> Decision 2004-049 Direction No. 6 P44

Consumer Group (CG)<sup>10</sup> provided comments on the Compliance Filings and on August 16, 2004, the ATCO Utilities responded to the comments from the Consumer Group.

The Compliance Filings and submission by CG were considered by Board members Mr. A. J. Berg, P. Eng. (Presiding Member), Ms. B. Torrance, M.A. (Acting Member), and Ms. C. Dahl Rees, M.A., LL.B. (Acting Member).

The Board considers that the proceeding closed on August 16, 2004.

## 2 VIEWS OF THE ATCO UTILITIES

The ATCO Utilities provided responses to the Board directions in the Decision as follows:

### **Direction 1- Direction Arising From Decision 2002-069**

The ATCO Utilities submitted this Direction was a summary of the original Direction arising from Decision 2002-069. In the ATCO Utilities' view, there was no further action required on this Direction.

### **Board Direction No. 2 and No. 3 – Direction to Adjust Placeholder Amounts**

The ATCO Utilities each filed revised Placeholder amounts, which excluded the salary for the Co-Chairman and CEO (\$964,404) and the Chief Operating Officer (\$600,000) for 2003 from the allocated costs. The revised amounts also included the addition of Ms. Spruin's salary (\$92,000) and an amount for compensation for the position of non-executive Chairman (\$250,000). The reduction of associated benefit costs (\$110,000) for these roles was also reflected. The revised 2003 amounts were then increased by the approved 4% Progression and Inflation factor to calculate the 2004 amounts.

### **Board Direction No. 4 and No. 5 – Direction to File a Further Executive Compensation Study**

In response to the Board's direction to file an updated executive compensation study in the applicable next general rate application, each of the ATCO Utilities agreed to comply with the directions.

### **Board Direction No. 6 – Direction to Refile Reflecting Modified Allocation Methodology**

To reflect the modified allocation methodology as well as the adjustments in Direction Nos. 2 and 3, the ATCO Utilities submitted the following amounts.

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<sup>10</sup> The CG submissions were on behalf of the following groups:  
Alberta Association of Municipal Districts and Counties  
Alberta Federation of Rural Electrification Associations Ltd.  
Alberta Irrigation Projects Association  
Alberta Urban Municipalities Association  
City of Edmonton  
Consumers Coalition of Alberta  
Federation of Gas Co-ops and Gas Alberta  
Public Institutional Consumers of Alberta

**Table 1. 2003 – 2004 Cost Allocation**

|                                | 2003 Forecast       |                   |              | 2004 Forecast       |                   |              |
|--------------------------------|---------------------|-------------------|--------------|---------------------|-------------------|--------------|
|                                | Current Placeholder | Compliance Amount | Difference   | Current Placeholder | Compliance Amount | Difference   |
| <b>Amounts to be Allocated</b> | <b>4,371</b>        | <b>3,039</b>      | <b>1,332</b> | <b>4,546</b>        | <b>3,161</b>      | <b>1,385</b> |
| ATCO Gas                       | 888                 | 617               | 271          | 923                 | 642               | 281          |
| ATCO Electric                  | 846                 | 587               | 259          | 880                 | 610               | 270          |
| ATCO Pipelines                 | 342                 | 261               | 81           | 353                 | 272               | 81           |
|                                | <b>2,076</b>        | <b>1,465</b>      | <b>611</b>   | <b>2,156</b>        | <b>1,523</b>      | <b>633</b>   |

The ATCO Utilities were also directed to propose a process for dealing with the compliance with the revised Placeholder amounts. ATCO Gas advised the Board that it would be filing an application related to the impact of the transfer of the retail function to Direct Energy on its 2004 revenue requirement forecast and proposed that the impact be incorporated into the compliance filing for that application. The Board received that filing on July 30, 2004 as application no. 1355457. ATCO Electric proposed to incorporate the adjustments to the Placeholders into the process for disposing of the 2003 Transmission and Distribution Deferral Accounts and Annual Filing for Adjustment Balances Application, which was filed on July 2, 2004. ATCO Pipelines proposed to reflect the revised amounts in accordance with the Board's guidance in Decision 2004-059, which directed that revenue adjustments should be placed in separate deferral accounts for subsequent disposition after the impacts of the Phase II issues have been determined.

In response to the concern of CG, the ATCO Utilities responded with a letter to the Board which attached the ATCO Group Management Proxy Circular for its May 19, 2004 Annual Meeting. The ATCO Utilities submitted that this material was publicly available during the course of the proceeding and that it showed the annual retainer for the Chairman in the amount of \$250,000. The ATCO Utilities further submitted that this actual 2003 number did not require further substantiation or justification.

### 3 VIEWS OF THE PARTIES

#### CG

The Consumer Group did not take exception to the amounts excluded or their allocation to the respective utilities. The CG submitted, however, that the Board should disallow the \$250,000 included as Board of Directors Compensation for Mr. Southern based on the grounds that the ATCO Utilities did not provide any substantiation for the amount nor indicate whether this amount was net of Board of Directors compensation. The CG submitted that the ATCO Utilities should be required to demonstrate that the \$250,000 compensation is fair and reasonable. Further, the CG concurred with the proposals of the ATCO Utilities for implementing the adjustments to the Placeholders.

#### 4 VIEWS OF THE BOARD

Based on a review of the Compliance Filings and the schedules submitted by the ATCO Utilities, the Board confirms that the filed “Compliance Amount” for each respective ATCO Utility as shown in Table #1 accurately reflects the directions of the Board from Decision 2004-049. The “Current Placeholder” amounts for each respective ATCO Utility in Table #1 are different than the amounts included in application # 1310259 (resulting in Decision 2004-049). The Board has verified these “Current Placeholder” amounts and is satisfied that they accurately reflect the placeholders currently in place, in the most recent respective ATCO Utility GRA/GTA compliance filings. Consequently, the resulting “Difference” as shown in Table #1 also reflects the appropriate adjustments to be made to the “Current Placeholder” amounts in the respective ATCO Utility GRA or GTA filings.

The Board notes that CG was the only party that objected to the Compliance Filings and that the objection was limited to the lack of justification for the \$250,000 non-executive Chairman compensation paid to Mr. Southern. The CG did not object to any other amounts, their allocation to the ATCO Utilities, or the methods proposed to reflect the adjustments.

The Board has determined that for present purposes it is prepared to accept the amount of \$250,000 as filed for Mr. Southern, based upon the information in the Management Proxy Circular provided by ATCO Utilities and considering that the scope of this particular proceeding, as discussed by the Board in Decision 2004-049, did not require that evidence focus specifically on Board of Director compensation at this time.

The Board notes that all parties will have opportunity to fully examine Board of Directors compensation, including that of the Chairman, when the ATCO Utilities update the executive compensation study in the applicable next general rate application, in compliance with Board Directions No. 4 and No. 5 in Decision 2004-049.

As a result the Board approves the compliance placeholder amounts and proposed methods for reflecting adjustments as filed. Subject to any future Board direction, the Board will revisit the matter of executive compensation when the ATCO Utilities file an updated executive compensation study “...in the next ATCO Gas GRA, ATCO Pipelines GRA or ATCO Electric GTA...”<sup>11</sup> (emphasis added) as per Board Direction No. 4 in Decision 2004-049.

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<sup>11</sup> Decision 2004-049, P44



## 5 ORDER

IT IS HEREBY ORDERED THAT:

- 1) The Compliance Filings reflected in Application Nos. 1353975, 1353976 and 1354862 are approved as filed.

Dated in Calgary, Alberta on September 7, 2004.

### **ALBERTA ENERGY AND UTILITIES BOARD**

*(original signed by)*

A. J. Berg, P. Eng.  
Presiding Member

*(original signed by)*

C. Dahl Rees, M.A., LL.B.  
Acting Member

*(original signed by)*

B. Torrance, M.A.  
Acting Member