



ATCO Gas and Pipelines Ltd.

2015 Capital Tracker True-up and 2017 Steel Mains Replacement Forecast Update

June 12, 2017

Alberta Utilities Commission

Decision 21843-D01-2017

ATCO Gas and Pipelines Ltd.

2015 Capital Tracker True-up and 2017 Steel Mains Replacement Forecast Update

Proceeding 21843

June 12, 2017

Published by the:

Alberta Utilities Commission

Fifth Avenue Place, Fourth Floor, 425 First Street S.W.

Calgary, Alberta

T2P 3L8

Telephone: 403-592-8845

Fax: 403-592-4406

Website: www.auc.ab.ca

Contents

1	Decision	1
2	Introduction.....	2
3	Background	3
4	Commission process for reviewing the 2015 capital tracker true-up application	3
5	Summary of projects included in the application	4
6	Grouping of projects for capital tracker purposes	7
7	Project assessment under Criterion 1 – the project must be outside of the normal course of the company’s ongoing operations.....	11
7.1	Common issues by project or program	12
7.1.1	Allocated indirect costs (overhead)	12
7.1.2	Project management policies	16
7.2	Previously approved capital tracker projects or programs.....	16
7.2.1	Programs or projects for which no objections were raised	16
7.2.1.1	Steel Mains Replacement (SMR)	17
7.2.1.2	Transmission Driven Capital	17
7.2.1.3	Meter Relocation and Replacement (MRRP).....	19
7.2.1.4	Line Heater Reliability	19
7.2.1.5	Cathodic Protection	20
7.2.1.6	Regulating Metering Station Improvements	20
7.2.1.7	New Urban Service Lines.....	21
7.2.1.8	Service Line Replacements and Improvements	21
7.2.1.9	New Regulating Meter Stations.....	22
7.2.1.10	Urban Mains Relocations	22
7.2.2	Projects or programs requiring further comment.....	23
7.2.2.1	Plastic Mains Replacement.....	23
7.3	New capital tracker program – Alberta Floods.....	28
8	Accounting test under Criterion 1 – the project must be outside of the normal course of the company’s ongoing operations and Commission conclusion on Criterion 1	30
8.1	Accounting test for the 2015 true-up	30
8.2	Accounting test for the 2014 Alberta Floods costs.....	32
8.3	2015 actual debt rate used in the accounting test.....	32
8.3.1	Actual cost of debt compared to ATCO Gas’s calculated WACD used in the 2015 capital tracker true-up calculations	33
8.3.2	ATCO Gas’s 2015 debt issuances and positive cash balances	34
8.4	Commission’s conclusions on Criterion 1	39
9	Criterion 2 – ordinarily the project must be for replacement of existing capital assets or undertaking the project must be required by an external party	39
10	Criterion 3 – the project must have a material effect on the company’s finances	40
11	2017 SMR capital tracker forecast	42

11.1	Project assessment under Criterion 1	42
11.2	Assessment against the remaining capital tracker criteria	48
12	ATCO Gas’s compliance with Commission directions.....	49
13	2015 K factor true-up calculations	50
14	Order	51
	Appendix 1 – Proceeding participants	53
	Appendix 2 – Summary of Commission directions.....	54
	Appendix 3 – ATCO Gas’s prior capital tracker-related decisions	55

List of tables

Table 1.	K factor amounts included in the application	5
Table 2.	K factor associated with programs and projects included in the 2015 capital tracker true-up.....	5
Table 3.	ATCO Gas North capital tracker capital expenditures	6
Table 4.	ATCO Gas South capital tracker capital expenditures.....	7
Table 5.	Alberta floods – costs grouped by asset type.....	9
Table 6.	Allocated indirects (overhead) for 2015.....	13
Table 7.	ATCO Gas North allocated indirects (overhead) by program, 2015	13
Table 8.	ATCO Gas South allocated indirects (overhead) by program, 2015	14
Table 9.	2015 Transmission Driven forecast and actual costs.....	18
Table 10.	2015 general transmission variances.....	18
Table 11.	2015 PMR program – actual versus approved forecast and variances.....	25
Table 12.	ATCO Gas’s 2015 capital tracker true-up accounting test assumptions.....	31
Table 13.	2017 applied-for and updated forecast and associated K factor amounts for the SMR program.....	42
Table 14.	SMR historical expenditures.....	43

List of figures

Figure 1	Linear regression using 2015 PMR project actual costs	26
-----------------	--	-----------

1 Decision

1. This decision provides the Alberta Utilities Commission's determination of ATCO Gas and Pipelines Ltd.'s (ATCO Gas or AG) 2015 capital tracker true-up. For the reasons outlined in this decision, the Commission has determined that:

- ATCO Gas's proposed grouping into projects or programs is reasonable.
- The need for the capital tracker projects or programs included in the 2015 true-up is confirmed and the actual scope, level, timing and actual costs of each of the projects or programs included in the 2015 true-up were prudent. As a result, each of these programs or projects meets the project assessment requirement under Criterion 1.
- The capital tracker projects or programs included in the 2015 true-up satisfy the accounting test requirement of Criterion 1. Therefore, all of ATCO Gas's programs or projects included in the 2015 true-up satisfy the requirements of Criterion 1 for capital tracker treatment.
- The previously-approved capital tracker projects or programs included in the 2015 true-up continue to meet the requirements of Criterion 2. The new Alberta Floods program also meets the requirements of Criterion 2.
- All of ATCO Gas's capital tracker projects or programs included in the 2015 true-up satisfy the two-tiered materiality test requirement of Criterion 3.
- The Alberta Floods program meets all three capital tracker criteria based on the actual expenditures in 2014.
- The Steel Mains Replacement (SMR) capital tracker program meets all three capital tracker criteria based on an updated forecast basis for 2017.

2. Based on the above determinations, the Commission approves the 2015 K factor true-up refund of \$2.9 million and \$1.8 million in the north and south, respectively. The Commission also approves the portions of the 2017 forecast K factor amounts of \$0.8 million and \$0.5 million in the north and south, respectively, arising from the approval of the 2017 updated SMR forecast. The portion of the 2014 K factor amount associated with the Alberta Floods program of \$0.375 million in the south is also approved. The Commission directs ATCO Gas to include these amounts in its 2018 performance-based regulation (PBR) rates application.

2 Introduction

3. On July 22, 2016, ATCO Gas and Pipelines Ltd. (ATCO Gas or AG) filed an application with the Alberta Utilities Commission requesting approval of its 2015 capital tracker true-up, capital tracker treatment for the capital costs related to the 2013 southern Alberta floods for the years 2014 and 2015, and its updated forecast for the 2017 SMR capital tracker program.

4. On July 25, 2016, the Commission issued a notice of application that required interested parties to submit a statement of intent to participate (SIP) by August 8, 2016. In their SIPs, parties were to provide a description of their interest in the proceeding, an explanation of their position and submissions as to the process steps required. The Commission received SIPs from the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA).

5. After reviewing the application and the SIPs, the Commission determined that the application would be considered by way of a *full process*, as described in Bulletin 2015-09.¹ In accordance with the schedule, ATCO Gas held a technical workshop on August 24, 2016. The process schedule ultimately included the follow steps for record development: information requests (IRs), ATCO Gas's responses to IRs, intervener evidence, IRs to interveners, intervener responses to IRs, and ATCO Gas's rebuttal evidence. On January 30, 2017 the Commission directed ATCO Gas to respond to certain additional information requests² due to a motion by the CCA.³ The main process steps, as amended throughout the course of the proceeding, were as set out in the table below:

Process step	Due date
Technical workshop	August 24, 2016
IRs to ATCO Gas	September 1, 2016
IR responses from ATCO Gas	November 2, 2016
Intervener evidence	November 28, 2016
Information requests (IRs) to interveners	December 9, 2016
IR responses from interveners	December 23, 2016
Rebuttal evidence	January 9, 2017
IR responses from ATCO Gas and further evidence	February 14, 2017
Argument	February 28, 2017
Reply argument	March 14, 2017

6. The Commission considers the record for this proceeding to have closed on March 14, 2017.

7. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, as well as findings in decisions 2012-237,⁴ 2013-435,⁵ 3267-D01-2015,⁶ 20604-D01-2016⁷ and related compliance

¹ Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.

² Exhibit 21843-X0067.

³ Exhibit 21843-X0060.

⁴ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012.

decisions. Accordingly, references in this decision to specific parts of the records 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 records with respect to a particular matter.

3 Background

8. On September 12, 2012, the Commission issued Decision 2012-237, which set out the PBR framework and approved PBR plans for the distribution utility services of certain Alberta electric and gas companies (collectively, the distribution utilities), including ATCO Gas. Within these PBR plans, the Commission approved a rate adjustment mechanism to fund certain capital-related costs. This supplemental funding mechanism was referred to in Decision 2012-237 as a “capital tracker” with the revenue requirement associated with approved amounts to be collected from ratepayers by way of a “K factor” adjustment to the annual PBR rate-setting formula.

9. At paragraph 592 of Decision 2012-237, the Commission set out the criteria that a capital project or program would have to satisfy in order to receive capital tracker treatment approval. The implementation and application of these criteria, and the K factor calculation methodology were considered in a 2013 capital trackers proceeding, leading to Decision 2013-435. The implementation methodology established in Decision 2013-435 is, and has been, used to evaluate the capital tracker projects or programs proposed by the distribution utilities throughout the five-year PBR term over the 2013 to 2017 year period.

10. Subsequent to the release of Decision 2013-435, each distribution utility has filed separate capital tracker applications on an annual basis for its specific capital trackers. ATCO Gas’s last such application was filed in 2015 and led to the release of Decision 20604-D01-2016, which addressed ATCO Gas’s 2014 capital tracker true-up and 2016-2017 capital tracker forecast. Section 2.1 of that decision provides a comprehensive overview of the capital tracker approach under PBR. A summary of ATCO Gas’s prior capital tracker-related decisions and resulting approved K factor amounts is attached as [Appendix 3](#) to this decision.

4 Commission process for reviewing the 2015 capital tracker true-up application

11. The Commission’s process for reviewing the 2015 capital tracker true-up application followed the same steps as those set out in Section 3 of Decision 20604-D01-2016. The Commission indicated it would generally undertake assessments with respect to all three criteria for capital tracker treatment for all capital projects or programs that the Commission has not considered in prior capital tracker decisions.

12. For projects or programs for which the Commission has previously confirmed the need under the project assessment component of Criterion 1 in prior capital tracker decisions, the

⁵ Decision 2013-435: Distribution Performance-Based Regulation 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

⁶ Decision 3267-D01-2015: ATCO Gas and Pipelines Ltd. 2013 PBR Capital Tracker Refiling and True-up and 2014-2015 PBR Capital Tracker Forecast, Proceeding 3267, Application 1610634-1, March 19, 2015.

⁷ Decision 20604-D01-2016: ATCO Gas and Pipelines Ltd. 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 20604, April 14, 2016.

Commission did not undertake a reassessment of need under Criterion 1 in the absence of evidence that the project or program was no longer required. However, the Commission did assess the scope, level and timing of each project or program for prudence, and whether the actual costs of the project or program were prudently incurred, as required by the second part of the project assessment under Criterion 1.

13. The Commission also considered that for the purposes of the true-up of the 2015 capital tracker programs or projects for which the Commission undertook and approved the assessment against the Criterion 2 requirements in prior capital tracker decisions, there was no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program had changed. An assessment of the 2015 capital tracker projects and programs with respect to the accounting test under Criterion 1 and materiality test under Criterion 3 was conducted.

14. The remaining sections of this decision are organized as follows:

- Section 5 of this decision provides an overview of the programs or projects for which ATCO Gas has sought capital tracker true-up in 2015 on an actual basis.
- The evaluation of ATCO Gas's proposed capital project groupings is set out in Section 6.
- The assessment of ATCO Gas's programs or projects proposed for capital tracker treatment under Criterion 1 is set out in sections 7 and 8 dealing with the project assessment and the accounting test, respectively.
- The Commission's assessment under Criterion 2 is undertaken in Section 9 and the assessment under Criterion 3 is set out in Section 10.
- Section 11 includes the findings on ATCO Gas's updated 2017 SMR capital tracker forecast.
- Section 12 deals with ATCO Gas's compliance with Commission directions.
- Section 13 deals with the K factor calculation methodology and the K factor true-up for 2015.

5 Summary of projects included in the application

15. In the application, ATCO Gas requested approval of the true-up of the 2015 actual K factor, capital tracker treatment for the capital costs related to the Alberta Floods for the years 2014 and 2015, and reapplied for capital tracker treatment of its 2017 SMR program on an updated forecast basis, as shown in Table 1 below:

Table 1. K factor amounts included in the application

	North	South
	(\$000)	
2015 actual K factor true-up	(2,918)	(1,773)
Southern Alberta floods (2014 K factor)	-	375
2017 SMR incremental K factor	839	491
Capital tracker K factor net refund	(2,079)	(907)

Source: Exhibit 21843-X0009, application, Table 1.

16. As shown in Table 2 below, 17 of ATCO Gas’s programs or projects were approved for capital tracker treatment on a forecast basis for 2015. As part of the 2015 capital tracker true-up application, ATCO Gas requested the true-up of 11 programs or projects previously approved by the Commission for capital tracker treatment in Decision 3267-D01-2015, on a forecast basis, and with subsequent updated forecasts in the compliance filing Decision 20385-D01-2015.⁸ The remaining six projects approved on a forecast basis (Rural Main Replacements and Improvements, Urban Main Extensions, Urban Main Improvements, Transportation Equipment, Meter Set Improvements and Rural Main Extensions and Service Lines) did not meet the materiality Criterion 3 on an actual expenditures basis in 2015 and, as such, were not included in the 2015 K factor true-up.

17. ATCO Gas also requested capital tracker treatment on an actual basis for 2014 and 2015 for a new program not previously approved for capital tracker treatment, the Alberta Floods program. This program is discussed in Section 7.3. ATCO Gas calculated the portions of the 2014 and 2015 K factors associated with this program, for the south, to be \$0.375 million and \$0.607 million, respectively.

18. The projects or programs included in the 2015 capital tracker true-up and variance between the approved forecast and actual capital expenditures, resulted in a proposed K factor true-up for 2015 of negative \$2.9 million and negative \$1.8 million in the north and south service territory, respectively, as set out in the table below:

Table 2. K factor associated with programs and projects included in the 2015 capital tracker true-up

No	Program or project name	2015 compliance (Proceeding 20385)		2015 actual		Variance	
		North	South	North	South	North	South
		(\$000)					
1	Steel Mains Replacement	7,951	1,120	7,132	835	(819)	(285)
2	Plastic Mains Replacement	4,001	5,429	4,072	5,311	72	(118)
3	Transmission Driven	2,042	1,594	2,135	932	93	(662)
4	Meter Relocation and Replacement	1,717	519	1,229		(488)	(519)
5	Line Heater Reliability	600		542		(58)	
6	Cathodic Protection	203	150	216		13	(150)
7	Regulating Metering Station Improvements	501		369		(132)	
8	Rural Main Replacements and Relocations [Note 1]		168				(168)
9	New Urban Service Lines		392		179		(213)

⁸ Decision 20385-D01-2015: ATCO Gas, 2013 PBR Capital Tracker Refiling and True-up and 2014-2015 PBR Capital Tracker Forecast Compliance Application, Proceeding 20385, August 24, 2015.

No	Program or project name	2015 compliance (Proceeding 20385)		2015 actual		Variance	
		North	South	North	South	North	South
(\$000)							
10	Service Line Replacements and Improvements	1,072	1,617	1,036	1,546	(36)	(72)
11	New Regulating Meter Stations	320		352	222	32	222
12	Urban Main Extensions [Note 1]	157				(157)	
13	Urban Main Improvements [Note 1]	507				(507)	
14	Urban Main Relocations	1,487	251	1,026		(461)	(251)
15	Transportation Equipment [Note 1]		163				(163)
16	Meter Set Improvements [Note 1]	162				(162)	
17	Rural Main Extensions and Service Lines [Note 1]	309				(309)	
18	Alberta Floods				607		607
	Total applied-for K factor	21,029	11,404	18,110	9,631	(2,918)	(1,773)

Note 1: Programs or projects approved for capital tracker treatment on a forecast basis but not included in the 2015 K factor true-up on an actual expenditures basis.

Source: Exhibit 21843-X0009, application, paragraph 13.

19. Table 3 shows the individual projects or programs included in the 2015 K factor true-up and the associated 2015 actual capital expenditures for ATCO Gas's north service territory. The amounts reflected in the table include the 2015 forecast capital additions approved in Decision 3267-D01-2015, or updated forecast amounts approved in Decision 20385-D01-2015 dealing with the compliance filing to that decision.

Table 3. ATCO Gas North capital tracker capital expenditures

North	Capital expenditures		
	2015 approved forecast	2015 actual	Variance
(\$ million)			
Projects or programs for which no objections were raised			
Plastic Mains Replacement	22.9	19.4	(3.6)
Transmission Driven	15.5	27.2	11.7
Meter Relocation and Replacement	13.5	10.5	(3.0)
Line Heater Reliability	4.0	3.2	(0.8)
Cathodic Protection	1.2	0.4	(0.8)
Regulating Metering Station Improvements	1.7	2.9	1.2
Service Line Replacements and Improvements	2.4	2.4	0.0
New Regulating Meter Stations	1.5	1.8	0.4
Urban Main Relocations	6.6	4.9	(1.7)
Projects or programs for which issues were raised			
Steel Mains Replacement	29.5	28.5	(1.0)
Total	98.9	101.2	2.3

Note: Individual project or program capital addition values may not match values in the text below due to rounding.

Source: Exhibit 21843-X0003, application, paragraph 15, Table 3.

20. Table 4 shows the individual projects or programs included in the 2015 K factor true-up and the associated 2015 actual capital expenditures for ATCO Gas's south service territory.

Table 4. ATCO Gas South capital tracker capital expenditures

South	Capital expenditures		
	2015 approved forecast	2015 actual	Variance
	(\$ million)		
Projects or programs for which no objections were raised			
Plastic Mains Replacement	25.3	27.4	2.1
Transmission Driven	23.8	20.6	(3.2)
Cathodic Protection	1.0	0.0	(1.0)
New Urban Service Lines	13.7	14.3	0.6
Service Line Replacements and Improvements	3.6	4.2	0.6
New Regulating Meter Stations	0.0	2.8	2.8
Projects or programs for which issues were raised			
Steel Mains Replacement	5.0	10.0	5.0
Alberta Floods	0.0	0.9	0.9
Total	72.5	80.2	8.7

Source: Exhibit 21843-X0003, application, paragraph 15, Table 3.

21. ATCO Gas also requested approval of its updated forecast for the 2017 SMR capital tracker program. The updated capital expenditures are \$16.9 million in the north and \$10.9 million and in the south, with associated K factor amounts of \$0.8 million and \$0.5 million, respectively.

6 Grouping of projects for capital tracker purposes

22. In Decision 2013-435, the Commission determined that the accounting test and the first tier of the materiality test would be applied to the approved groupings (i.e., either at a project or at a program level). When necessary, however, the Commission would consider the individual component projects comprising the approved groupings in order to assess the need for the capital expenditures and the reasonableness of the forecast costs. The second tier of the materiality test is applied at the level of all capital tracker projects, in the aggregate.⁹ The Commission also determined that the reasonableness of the grouping of capital projects would be assessed on a case-by-case basis for each individual company.¹⁰

23. In this application, ATCO Gas used the same approach to grouping that it had used in its prior capital tracker applications for all previously approved capital tracker programs. This grouping of capital tracker projects was approved in Decision 3267-D01-2015.¹¹ ATCO Gas also included, as directed at paragraph 50 and Appendix 3 of Decision 3558-D01-2015,¹² a

⁹ Decision 2013-435, paragraph 407.

¹⁰ Decision 2013-435, paragraph 406.

¹¹ Decision 3267-D01-2015, paragraphs 107-108.

¹² Decision 3558-D01-2015: Distribution Performance-Based Regulation Commission-Initiated Proceeding to Consider Modifications to the Minimum Filing Requirements for Capital Tracker Applications, Proceeding 3558, Application 1611054-1, April 8, 2015.

description of its 2015 non-capital tracker projects and programs,¹³ and the actual capital additions for all programs. The application included supporting calculations and a breakdown of the amount of depreciation, overhead and income tax allocated to each capital tracker program and non-capital tracker program reconciled to the total amount of depreciation, overhead and income tax for all projects and programs,¹⁴ to allow for a better understanding of the proposed groupings of capital projects and programs for which ATCO Gas was seeking capital tracker treatment.

24. ATCO Gas referred to Decision 20604-D01-2016, where the Commission gave ATCO Gas the following direction:

65. ATCO Gas is directed to consider, in its next Capital Tracker application, the possibility of grouping the Urban Feeder Mains, Urban Main Improvements, and Urban Main Relocations programs into a single grouping. If it remains unwarranted to group these programs into a single grouping, ATCO Gas shall provide its rationale with supporting evidence on why these programs are dissimilar for Capital Tracker purposes.

25. ATCO Gas submitted that because all three programs have different drivers it remains proper to group them separately. ATCO Gas then described the drivers for each of the programs. The Urban Feeder Mains projects were considered to be driven by customer growth. A feeder main is the component in the gas distribution system that transports large volumes of gas from regulating meter stations to the mains in the distribution system that serves customers. Urban Feeder Mains are required to add capacity to serve new customers on the gas distribution system. The Urban Main Improvements are driven by system reliability concerns and these projects are completed when ATCO Gas must address a safety, reliability, or capacity issue on the gas distribution system. Urban Main Improvement work is required to loop, upsize, or otherwise increase the capacity of the existing distribution system, and to install and replace valves. The Urban Main Relocations are driven by individual requests from customers, municipalities or Alberta Transportation. The work is required to accommodate infrastructure or development projects.¹⁵

26. In addition to its previously-approved capital tracker programs ATCO Gas applied for a new capital tracker program in this proceeding, the Alberta Floods program. This program relates to 2013 southern Alberta flood costs. In Decision 2738-D01-2016,¹⁶ the 2013 costs for this program (capital-related costs, operating and maintenance costs, lost revenue, and carrying charges) were approved for recovery by way of a Z factor. The Commission determined that costs incurred for the remaining years 2014 to 2017 did not pass the Z factor materiality threshold. However, the Commission stated the following regarding the capital-related costs for this program:

67. With regard to the capital-related costs incurred in the years 2014 to 2017, which have not been approved for Z factor treatment, the determination of the Commission in this decision does not preclude ATCO Gas from bringing forward an application for

¹³ Exhibit 21843-X0006, application, Appendix C.

¹⁴ Exhibit 21843-X0002, application, Appendix A.

¹⁵ Exhibit 21843-X0009, application, paragraph 25.

¹⁶ Decision 2738-D01-2016: ATCO Gas and Pipelines Ltd., Z Factor Application for Recovery of 2013 Southern Alberta Flood Costs, Proceeding 2738, March 16, 2016.

additional funding for these capital costs by way of a K factor, provided the Commission's criteria for capital tracker treatment are satisfied.¹⁷

27. Accordingly, ATCO Gas applied for a capital tracker for the 2014 and 2015 costs in the current application. The Alberta Floods program is assessed in accordance with the capital tracker criteria in sections 7 to 10 below. This section of the decision addresses the grouping issues associated with the Alberta Floods capital tracker.

28. In the proceeding leading to Decision 2738-D01-2016, ATCO Gas's Z factor adjustment application, ATCO Gas filed a summary of capital costs split out by asset type, including actual and forecast costs associated with the Alberta floods. In response to a Commission IR in the current proceeding, ATCO Gas updated the Alberta Flood costs to reflect actual amounts by year and the government contributions and insurance proceeds attributed to specific asset categories.¹⁸ These costs, as well as the adjustments for government and insurance proceeds, are found in the following table:

Table 5. Alberta floods – costs grouped by asset type¹⁹

	2013	2014	2015	Total
	(\$)			
Mains				
Costs	1,823,199	3,883,376	503,048	
Government contributions	-	(534,228)	(125,211)	
Insurance proceeds	-	-	(592,329)	
Total	1,823,199	3,349,088	(214,492)	4,957,854
Services				
Costs	87,994	90,524	56,951	
Government contributions	(23,655)	-	-	
Total	64,289	90,524	56,951	211,814
Land and structures				
Costs	4,631	217,043	-	
Insurance proceeds	-	-	(115,317)	
Total	4,631	217,043	(115,317)	106,357
Meters/automatic meter reading (AMR)/regulators	196,135	14,639	3,585	214,359
Stations	47,161	23,797	294,500	365,458

29. In response to another Commission IR, ATCO Gas stated that the capital tracker grouping for the Alberta Flood projects into a separate program should be accepted because the costs for these projects were tracked separately in Proceeding 2738 and in previous capital tracker applications. ATCO Gas noted that if these costs were not grouped separately for the purposes of this application, ATCO Gas would be required to reallocate these costs to several programs and it would have to restate the accounting test continuity schedule starting in 2013. According to ATCO Gas, such reallocation "would be potentially confusing as it would change the rate base related to many Capital Tracker programs going back to 2013, and would break continuity in the schedules of past Capital Tracker applications."²⁰ ATCO Gas asserted that the accounting test restatement would require a significant amount of work and that the impact of

¹⁷ Decision 2738-D01-2016, paragraph 67.

¹⁸ Exhibit 21843-X0028, AG-AUC-2016SEP06-002(a) and (c).

¹⁹ Exhibit 21843-X0028, AG-AUC-2016SEP06-002(a) and (c).

²⁰ Exhibit 21843-X0028, AG-AUC-2016SEP06-003(a).

such a restatement is likely less than \$100,000 in each of 2014 and 2015. Lastly, ATCO Gas noted that its separate treatment with respect to grouping the Alberta flood costs is consistent with previous Commission decisions and the “projects are similar in nature, share a common driver, and are located in the same geographic location.”²¹

Commission findings

30. Consistent with the approach set out in previous capital tracker decisions,²² and with the exception of the capital tracker for the Alberta Floods, the groupings included in the application are the same as those approved in Decision 3267-D01-2015. The Commission has not re-evaluated those groupings, except to consider whether the grouping of the Urban Feeder Mains, Urban Main Improvements, and Urban Main Relocations programs should be combined into a single grouping following the direction in paragraph 67 of Decision 20604-D01-2016.

31. In Decision 2013-435, which addressed the 2013 capital trackers applications of the PBR utilities, the Commission made the following finding regarding grouping of projects for capital tracker purposes:

405. ... the Commission is cognisant of the need to consider the unique differences among the companies with respect to their historical project classifications in cost-of-service applications, limitations in companies’ accounting systems, and the nature and geographic location of the companies’ facilities.

406. Accordingly, the Commission finds that the reasonableness of the grouping of capital projects is best assessed on a case-by-case basis for each individual company. The Commission will require the companies to provide a justification for their proposed grouping of projects for capital tracker treatment.²³

32. Because the nature of the work is significantly different and given that the Urban Feeder Mains, Urban Main Improvements, and Urban Main Relocations programs have been separate programs historically, the Commission finds that each of these programs should remain separate for the purposes of capital tracker treatment. Further, the Commission accepts ATCO Gas’s explanations that because these programs have varying underlying drivers, they should not be grouped together. The Urban Feeder Mains, Urban Main Improvements, and Urban Main Relocations will continue to be treated as separate programs for capital tracker purposes.

33. The Commission finds that ATCO Gas has complied with the directions at paragraph 50 and Appendix 3 of Decision 3558-D01-2015 to provide descriptions of its non-capital tracker projects or programs. The Commission has reviewed ATCO Gas’s description of the nature, scope, and timing of its non-capital tracker projects, which allows the Commission to better understand the proposed groupings of ATCO Gas’s proposed capital tracker projects and programs, and finds the non-capital tracker projects reasonably comport with the capital tracker groupings proposed by ATCO Gas.

34. Regarding the new Alberta Floods program, the reasonableness of the grouping of capital projects is best assessed on a case-by-case basis, consistent with Decision 2013-435. In the circumstances of the proposed Alberta Floods capital tracker, the common driver for the costs

²¹ Exhibit 21843-X0028, AG-AUC-2016SEP06-003(a).

²² See for example, Decision 3558-D01-2015, paragraph 51.

²³ Decision 2013-435, paragraphs 405 and 406. See also Decision 3267-D01-2015, paragraphs 83 and 88.

related to the capital tracker program relates to the replacement of assets due to unique and substantial circumstances arising from the 2013 southern Alberta floods.

35. With respect to grouping, this proposed capital tracker is also unique in that ATCO Gas has been able to identify individual asset categories for costs included in the Alberta Floods capital tracker program, and the assets included in this program could be regrouped by asset type into existing or proposed capital tracker projects, i.e., the projects that include asset types identified in Table 5 above. The Commission recognizes that regrouping of capital tracker projects by specific asset type should ordinarily be undertaken if assets can be identified to ensure that similar assets are grouped for capital tracker purposes.

36. While the Commission considers that from a principled perspective, regrouping should occur for capital tracker programs that relate to the same or similar asset type, the Commission also recognizes that the impact is unlikely to be material to the current application and there would be additional regulatory burden associated with regrouping the Alberta Flood costs by asset type. ATCO responded to a Commission IR on this issue, as follows:

If these costs were not grouped separately for this Application, ATCO Gas would be required to reallocate these costs to several programs and restate the Accounting Test Continuity Schedule starting in 2013. As the capital costs relate to 2013 are currently being recovered through the Z factor, this would create a situation where capital from 2013 is separated out in a Z factor but the 2014 and 2015 capital is spread among several capital programs. Restating the Accounting Test would be potentially confusing as it would change the rate base related to many Capital Tracker programs going back to 2013, and would break continuity in the schedules of past Capital Tracker applications. The manual restatement of the accounting test would also require a significant amount of work. Furthermore, based on a high-level review, ATCO Gas believes the K factor impact of breaking out the Alberta Floods costs into other programs is less than \$100,000 in each of 2014 and 2015.²⁴

37. The Commission accepts ATCO Gas's explanation of why separating its assets included in the Alberta Floods program into a number of different asset types, each to be grouped with a different existing capital tracker project or program, is not practical for the purposes of the current application.

38. In light of the above considerations, for the purposes of this decision, the Commission accepts ATCO Gas's grouping of projects, as filed. Given the unique circumstances arising from the 2013 southern Alberta floods, the Commission approves the Alberta Floods program grouping.

7 Project assessment under Criterion 1 – the project must be outside of the normal course of the company's ongoing operations

39. As discussed in Section 4 of this decision, each of ATCO Gas's programs or projects included in the 2015 true-up was evaluated against the second part of the project assessment requirements of Criterion 1. This component of Criterion 1 considers whether the actual scope, level, timing and costs of the project are prudent. For the new Alberta Floods program, the

²⁴ Exhibit 21843-X0028, AG-AUC-2016SEP06-003(a).

Commission also assessed the need as well as the actual scope, level, timing and costs of the program.

40. The Commission evaluated the ATCO Gas business cases, engineering studies, cost-related information, and related evidence and argument against each of the project assessment minimum filing requirements. In this decision, the Commission comments only on those aspects of the minimum filing requirements that it considers were not sufficiently addressed by ATCO Gas's evidence or were otherwise raised as an issue in the proceeding.

41. The balance of this section is organized as follows:

- Section 7.1 addresses common issues related to the project assessment of ATCO Gas's projects, such as overhead allocations, affiliate transactions, and the company's internal cost controls and accountability mechanisms with respect to quality, safety and cost for capital projects approved for capital tracker treatment.
- Section 7.2 sets out the Commission's project assessment under Criterion 1 of ATCO Gas's programs or projects previously approved for capital tracker treatment in Decision 3267-D01-2015.
- Section 7.3 sets out the Commission's project assessment under Criterion 1 for the new Alberta Floods program.

7.1 Common issues by project or program

7.1.1 Allocated indirect costs (overhead)

42. Allocated indirect costs (also referred to as allocated indirects) include overhead costs related to contractor charges, information technology support, staff expenses, material, and equipment. ATCO Gas provided the following table, setting out its allocated indirect costs for 2015 actual expenditures and 2015 forecast costs for allocating overhead costs to capital program expenditures:

Table 6. Allocated indirects (overhead) for 2015

	2015 approved Proceeding 20385	2015 updated forecast Proceeding 20604	2015 actual	Approved vs. actual variance	Approved vs. actual variance
	(\$000)				(%)
Contractor charges	3,224	3,013	3,294	70	2.2
IT Support	3,605	3,779	3,400	(205)	(5.7)
Staff expenses	1,844	1,707	1,626	(218)	(11.8)
Materials	1,768	1,409	1,496	(272)	(15.4)
Equipment	1,095	1,002	1,044	(51)	(4.7)
TOTAL	11,536	10,910	10,860	(676)	(5.86)
2012 approved Indexed by I-X	(11,184)	(11,184)	(11,184)		
Higher/lower than I-X	352	(274)	(324)		
Total capital expenditures	341,732	349,779	336,464		
% of allocated indirects in capital expenditures	3.4%	3.1%	3.2%		

* Note: From Proceeding 20385, Exhibit 20385-X0005, ATCO Gas Compliance Filing, Table 3.
Source: Exhibit 21843-X0009, application, Table 12.

43. ATCO Gas noted that its allocated indirect costs for 2015 remained relatively stable across the approved forecast, updated forecast and actual.

44. ATCO Gas also provided its 2015 allocated indirects by program by each of the north and south:

Table 7. ATCO Gas North allocated indirects (overhead) by program, 2015

North	2015 approved	2015 updated forecast	2015 actual
	(\$000)		
Urban Mains Extensions	477	466	463
Rural Mains Extensions & Services	412	385	395
Urban Feeder Mains	176	153	126
New Regulating Meter Stations	35	42	26
Urban Main Improvements	193	149	187
Urban Main Relocations	233	226	147
Rural Main Replacements and Relocations	88	95	65
Regulating Metering Station Improvements	56	26	43
Cathodic Protection	44	35	13
New Urban Service Lines	1,097	1,016	1,013
Service Line Replacements and Improvements	107	114	110
Meters and Instruments	237	169	142
Supervisory Control and Data Acquisition (SCADA)	5	5	6
Regulators and Meter Installations	214	216	291
Meter Set Improvements	40	40	24

North			
	2015 approved	2015 updated forecast	2015 actual
	(\$000)		
General Land and Structures	43	75	29
Transportation Equipment	27	29	36
Tools and Work Equipment	12	14	5
Heavy Work Equipment	9	7	10
Garage, Stores and Shop Equipment	1	2	1
Office Furniture and Equipment	-	-	-
Technical Support Equipment	1	2	-
Emergency Supply	-	1	4
Communication Equipment	92	67	56
Information Technology	34	65	35
Steel Mains Replacement	1,091	916	975
Plastic Mains Replacement	853	694	671
Meter Relocation Replacement Program	340	276	241
Line Heater Reliability Program	96	61	47
Transmission Driven	546	758	845
AMR	9	72	64
Total	6,568	6,176	6,070

Source: Exhibit 21843-X0009, application, paragraph 130.

Table 8. ATCO Gas South allocated indirects (overhead) by program, 2015

South			
	2015 approved	2015 updated forecast	2015 actual
	(\$000)		
Urban Mains Extensions	323	314	282
Rural Mains Extensions & Services	312	267	236
Urban Feeder Mains	115	74	112
New Regulating Meter Stations	47	23	44
Urban Main Improvements	91	112	123
Urban Main Relocations	125	71	55
Rural Main Replacements and Relocations	84	46	80
Regulating Metering Station Improvements	25	20	33
Cathodic Protection	36	38	14
New Urban Service Lines	648	725	728
Service Line Replacements and Improvements	157	170	206
Meters and Instruments	227	168	167
SCADA	7	2	5
Regulators and Meter Installations	170	188	212
Meter Set Improvements	14	11	14
General Land and Structures	38	72	39
Transportation Equipment	26	29	32
Tools and Work Equipment	12	12	10

South	2015 approved	2015 updated forecast	2015 actual
	(\$000)		
Heavy Work Equipment	10	3	9
Garage, Stores and Shop Equipment	2	2	1
Office Furniture and Equipment	-	-	-
Technical Support Equipment	2	1	-
Emergency Supply	-	15	-
Communication Equipment	49	67	48
Information Technology	34	64	74
Steel Mains Replacement	184	293	351
Plastic Mains Replacement	923	936	943
Meter Relocation Replacement Program	383	305	248
Line Heater Reliability Program	58	36	45
Transmission Driven	857	550	616
Commercial Below Ground Entry Project	-	-	-
AMR	9	72	43
2013 Southern Alberta Floods	-	48	20
Total	4,968	4,734	4,790
Grand total	11,536	10,910	10,860

Source: Exhibit 21843-X0009, application, paragraph 130.

45. ATCO Gas stated that it has followed the methodology for allocating overheads to capital program expenditures previously approved in Decision 2011-450.²⁵ ATCO Gas records costs within its capital cost pools that have been incurred for purposes common to a number of programs that cannot be identified and charged directly to programs and projects without a considerable amount of accounting effort.

Commission findings

46. In Decision 3267-D01-2015, ATCO Gas was directed to provide evidence demonstrating the reasonableness of adjustments for overhead costs in excess of I-X in future capital tracker applications.²⁶ The Commission previously approved ATCO Gas's methodology for allocating overheads to capital program expenditures in Decision 2011-450²⁷ and in Decision 20604-D01-2016, it found the forecast indirect costs for 2015-2017 to be reasonable based on the previously approved methodology.²⁸

47. The information provided by ATCO Gas in the application is similar to the allocated overhead costs information provided in proceedings 3267 and 20604.

48. In the current application, the actual allocated indirects for 2015 are lower than the 2012 approved allocated indirects. The Commission considers that in this instance the cost reductions

²⁵ Decision 2011-450: ATCO Gas (a Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase I, Proceeding 969, Application 1606822-1, December 5, 2011.

²⁶ Decision 3267-D01-2015, paragraph 145.

²⁷ Decision 3267-D01-2015, paragraph 146.

²⁸ Decision 20604-D01-2016, paragraph 94.

align with PBR principles that efficiencies should result in decreases in cost categories, such as allocated indirects. In addition, the 2015 actual overhead costs reflect the previously-approved methodology for allocating overhead costs to capital program expenditures.

49. Further, the difference between the 2015 approved forecast and actual is \$50,000, or less than one per cent.²⁹ The Commission has reviewed the information in support of ATCO Gas's 2015 actual overhead costs, including explanations for the variance between the 2015 actual and 2015 approved forecast, and finds that the 2015 actual overhead costs have been adequately accounted for in 2015. For these reasons, the Commission finds that the 2015 actual overhead costs were prudent.

7.1.2 Project management policies

50. At paragraph 75 of Decision 20604-D01-2016, the Commission directed ATCO Gas "to continue providing its formal management policies and procedures and identify any changes from the previous year." To demonstrate compliance with this direction, ATCO Gas confirmed that there were no material changes to its management policies and procedures in 2015.³⁰ ATCO Gas provided its project delivery process in Appendix E of the application, which has been filed in prior capital tracker applications.³¹

Commission findings

51. The Commission finds that ATCO Gas has complied with the direction set out at paragraph 75 of Decision 20604-D01-2016 and directs ATCO Gas to continue to confirm that these policies and procedures remain in place and to advise of modifications to its management policies and procedures in future capital tracker applications and general rates applications. If there are changes to management policies and procedures, a full copy of the amended policies and procedures must be filed with the Commission.

7.2 Previously approved capital tracker projects or programs

52. This section deals with ATCO Gas's projects or programs that were approved for capital tracker treatment on an actual or forecast basis in decisions 2013-435, 3267-D01-2015, or 20604-D01-2016. The Commission will consider these projects or programs in the context of the true-up of 2015 actual capital expenditures.

7.2.1 Programs or projects for which no objections were raised

53. There were a number of previously approved capital tracker projects or programs for which no objections were raised by the parties to this proceeding regarding need, scope, level, timing or costs. Table 3 and 4 above summarize these projects and show the 2015 forecast capital expenditures approved in Decision 3267-D01-2015 and the 2015 actual capital expenditures on which the 2015 capital tracker true-up is based. These programs or projects are discussed in sections 7.2.1.1 to 7.2.1.10, followed by the Commission findings for all of these programs or projects.

²⁹ $(50/10,910)*100$.

³⁰ Exhibit 21843-X0009, application, paragraph 27.

³¹ Exhibit 21843-X0004, application, Appendix E.

7.2.1.1 Steel Mains Replacement (SMR)

54. ATCO Gas noted the overall objective of its SMR Program is to ensure that ATCO Gas can continue to provide safe and reliable distribution service. ATCO Gas explained that it evaluates its pipe systems on an annual basis and that the results of such evaluations are used to determine the frequency of leak inspections or, when appropriate, when to replace gas mains and service lines. ATCO Gas explained that it will continue to regularly monitor and analyze its 8,800 kilometres (km) of steel pipe on the existing steel system, identifying existing risks and potential trends that could impact the safety and reliability of the system.³²

55. The 2015 approved forecast capital expenditures for this program were \$29.526 million in the north, while the actual 2015 capital expenditures were \$28.517 million, resulting in a \$1.008 negative variance for the north. The 2015 approved forecast capital expenditures for this program were \$4.980 million in the south, while the actual 2015 capital expenditures were \$9.996 million, resulting in a \$5.016 million positive variance for the south.

56. ATCO Gas noted that emergency expenditures were approximately 30 per cent higher than forecast, and that in 2015, ATCO Gas's approach to emergency replacement remained consistent with past years. ATCO Gas experienced more emergency work in 2015 due to increased leaks on the system that required more mains replacement than has historically occurred.³³

57. Further, ATCO Gas referred to three areas originally identified for replacement in 2015 that were delayed to 2016, and four additional projects were identified and completed in 2015. Overall, the total mains replaced increased from 40.1 km to 42.0 km (a 4.7 per cent increase) and the number of services impacted increased from 3,452 to 3,688 (a 6.8 per cent increase). However, ATCO Gas also noted that while overall costs were 10 per cent higher than forecast, the total cost per service was one per cent lower than forecast.³⁴

58. Further, ATCO Gas indicated that in addition to repair costs for work in roadways, the City of Calgary introduced new charges that affected four projects in 2015. Overall, these costs increased the total SMR program cost by approximately \$1.0 million and represented 12 per cent of the south SMR project costs.³⁵

7.2.1.2 Transmission Driven Capital

59. The Transmission Driven Capital program relates to projects that ATCO Gas must undertake when a transmission company, either ATCO Pipelines or NOVA Gas Transmission Ltd., makes a change to its transmission system that requires a change to ATCO Gas's distribution facilities. The need for this program was approved in Decision 20385-D01-2015.

³² Exhibit 21843-X0007, Appendix B, paragraphs 16, 25 and 48.

³³ Exhibit 21843-X0009, application, paragraph 144.

³⁴ Exhibit 21843-X0009, application, paragraphs 143 and 146.

³⁵ Exhibit 21843-X0009, application, paragraph 151.

60. The table below shows the forecast to actual variance for this program in 2015:

Table 9. 2015 Transmission Driven forecast and actual costs

	Forecast	Actual	Variance
	(\$000)		
Total costs – North	15,532	27,202	11,670
Total costs – South	23,802	20,560	(3,243)

Source: Exhibit 21843-X0009, application, Table 36.

61. ATCO Gas explained that the large variance in the north was driven primarily by three unplanned projects.³⁶ Table 10 below lists the capital expenditures and variances associated with the three projects and the other general transmission category:

Table 10. 2015 general transmission variances

	Approved	Actual	Variance	Variance
	(\$000)			(%)
Red Deer Gate 3/6	-	1,383	1,383	100
Flynn/Manor Stations	-	1,797	1,797	100
Wandering River/Breynat	-	1,017	1,017	100
Other General Transmission	1,357	1,713	356	26
Total – general transmission	1,357	5,910	4,553	336

Source: Exhibit 21843-X0009, application, Table 38.

62. The Red Deer Gates 3/6 project was driven by ATCO Pipelines relocating a high pressure pipeline. As a result, ATCO Gas stated that its associated distribution system required several upgrades to accommodate the changes.

63. ATCO Gas indicated that the Flynn/Manor Station project was driven by the abandonment of the high pressure supply to both the Flynn and Manor gate stations in November 2014. ATCO Pipelines had to provide a temporary supply but a long-term distribution solution was required. The scope of work completed by ATCO Gas included abandoning both stations, installing a feeder main, and increasing the operating pressure of the pipeline.

64. Finally, ATCO Gas referred to the primary driver for the Wandering River/Breynat project as the loss of the sole supply to both the Wandering River and Breynat distribution systems due to repurposing of the transmission line. To maintain supply, ATCO Gas was required to install two new stations, abandon seven existing stations, install approximately 0.2 km of 33 millimetre (mm) steel high pressure pipe to supply the stations and install approximately 2.0 km of new 60 mm polyethylene distribution pipe to connect the new stations to the system.

65. The additional general transmission projects in 2015 included 45 projects and were driven by the transmission service provider. The \$5.9 million for these projects was

³⁶ Exhibit 21843-X0009, application, paragraphs 195-197.

approximately \$0.4 million above the three-year average for other general transmission driven projects.

7.2.1.3 Meter Relocation and Replacement (MRRP)

66. The MRRP program is required to address safety concerns associated with pressurized gas lines and meters inside buildings. The program includes the removal and replacement of the meter, regulator, and associated piping, to building exteriors. The need for this program was approved in Decision 20385-D01-2015.

67. The MRRP began in 2003. This capital tracker program consists of relocating and replacing Tier 2 (T2) and Tier 3 medium risk (T3M) meter sets in 2016. In addition, some low risk meter sets, Tier 3 low risk (T3L) and Tier 4 (T4), would be moved in conjunction with an annual meter recall program, at sites that present safety issues for customers or ATCO Gas employees, where meter access problems exist, or at the time that ATCO Gas remedies operational issues, e.g., leaks.

68. The forecast to actual variance for the MRRP program in 2015 for the north was a negative variance of \$3.0 million, which is the difference between the forecast capital expenditures of \$13.5 million and the actual capital expenditures of \$10.5 million.³⁷

69. ATCO Gas explained that the 2015 variance was due to a decrease in both the number of units which were completed and the cost per unit.³⁸ ATCO Gas contended that the overall cost incurred for the MRRP program was lower due to efficiencies realised through the development and implementation of new tools and procedures, as well as a decrease in the number of Tier 2 and Tier 3 medium risk moves that were completed.³⁹

7.2.1.4 Line Heater Reliability

70. The Line Heater Reliability program brings non-compliant ATCO Gas line heaters to an Occupational Health and Safety Code compliant level and includes related work at those non-compliant sites to ensure line heater reliability and safe operability. Improvement work for line heaters, where no code issues exist, is conducted under the Regulating and Metering Station Improvements program. Similarly, line heater upgrade work required due to growth, where no code issues exist, is completed under the New Regulating Stations Meter Stations program. The need for this program was previously approved in Decision 2013-435⁴⁰ and in Decision 3267-D01-2015.⁴¹

71. The 2015 approved forecast capital expenditures for this program were \$4.0 million in the north, and the actual 2015 capital expenditures were \$3.2 million in the north, resulting in a \$0.8 million negative variance.⁴²

72. ATCO Gas explained that the variance of \$0.8 million related to difficulties in securing land negotiations in 2015. Due to challenging landowner negotiations, ATCO Gas stated that it

³⁷ Exhibit 21843-X0009, application, Table 83.

³⁸ Exhibit 21843-X0009, application, paragraphs 254-255.

³⁹ Exhibit 21843-X0009, application, paragraph 257.

⁴⁰ Decision 2013-435, paragraph 671.

⁴¹ Decision 3267-D01-2015, paragraph 630.

⁴² Exhibit 21843-X0009, application, Table 85, paragraph 175.

was unable to secure enough land in time to complete 16 of the approved 43 sites in the north. In an IR response to the Commission, ATCO explained that in some cases, landowners are either unwilling to sell or lease additional land, or there are physical barriers to the proposed expansion of the site that cannot accommodate the planned work. ATCO Gas also stated that in some cases, negotiations with landowners have become more challenging, in both urban and rural areas, where residential or commercial development surrounds existing sites.⁴³

73. ATCO Gas explained it continues to experience challenges in securing land requirements, which may have an impact on the work scheduled for 2016 and 2017. ATCO Gas further confirmed that it plans on completing the 16 sites as quickly as reasonably possible and it has deployed additional resources in order to complete the program by the end of 2019.⁴⁴

7.2.1.5 Cathodic Protection

74. The Cathodic Protection program consists of maintaining and improving cathodic protection on ATCO Gas's existing steel mains. ATCO Gas maintains cathodic protection through improvement projects such as the replacement and new installation of dresser bondings, isolation fittings, anodes, rectifiers and ground beds. The need for this program was approved in Decision 20385-D01-2015.

75. The forecast to actual results for the Cathodic Protection program in 2015 for the north was a negative variance of \$0.8 million, which is the difference between the forecast capital expenditures of \$1.2 million and the actual capital expenditures of \$0.4 million.⁴⁵

76. ATCO Gas explained that the variance was largely due to a combination of the anode cost per unit being lower and the fact that fewer sites were completed. With respect to sites completed, ATCO Gas was able to complete some of the work scheduled for 2015, ahead of schedule, in 2014. Further, the actual cost per anode installed was \$366 rather than the forecast cost of \$893. The lower unit cost was due to ATCO Gas being able to complete the anode replacements in a frost-free environment, which eliminated the additional costs of hydro-excavation.⁴⁶

7.2.1.6 Regulating Metering Station Improvements

77. Regulating metering stations are the facilities required to receive gas on the distribution system from interconnections with the high pressure transmission system, as well as regulate pressures between different pressure distribution systems. Projects under this program are done to address reliability and performance issues. Typical projects in this program include installation of duplicate regulating "runs," major repairs to station buildings, and replacement of equipment due to deterioration or performance issues. The need for this program was approved in decisions 3267-D01-2015 and 20385-D01-2015.

78. The forecast to actual variance for the Regulating Metering Station Improvements program in 2015 for the north was a positive variance of \$1.2 million, which is the difference

⁴³ Exhibit 21843-X0028, AG-AUC-2016SEP06-012(b).

⁴⁴ Exhibit 21843-X0028, AG-AUC-2016SEP06-012(d)-(f).

⁴⁵ Exhibit 21843-X0009, application, Table 92.

⁴⁶ Exhibit 21843-X0009, application, paragraph 325.

between the forecast capital expenditures of \$1.7 million and the actual capital expenditures of \$2.9 million.⁴⁷

79. ATCO Gas explained that the variance was due to the reactive nature of the work in this program, including improvements to one regulating metering station project in the north. Two of the more significant projects required site grading and security upgrades and one other major project required manufactured line heaters for the operation of portable gate stations. There were more projects (approximately 160) that occurred in this program in 2015 than in the prior three years, which resulted in the level of capital expenditures being greater than the three-year average included in the forecasts.⁴⁸

7.2.1.7 New Urban Service Lines

80. The New Urban Service Lines program consists of residential and commercial customer service lines. Depending upon customer needs, commercial service lines range from short, small diameter pipe to long larger diameter pipe. Installing new urban service lines is required to serve municipalities as they continue to grow and develop. The timing of the work undertaken in this program is driven by the schedules of municipalities, developers and home builders. The need for this program was approved in decisions 3267-D01-2015 and 20385-D01-2015.

81. The forecast to actual variance for the New Urban Service Lines in 2015 for the south was a positive \$0.6 million, which is the difference between the forecast capital expenditures of \$13.7 million and the actual capital expenditures of \$14.3 million.⁴⁹

82. ATCO Gas explained that the variance was due to a higher number of commercial services than forecast. Commercial installations are more expensive than residential installations, and in 2015 ATCO Gas performed a number of high cost service installations for its commercial customers.⁵⁰ In addition, more work was required during the winter months, which increased the overall average cost of installations.

7.2.1.8 Service Line Replacements and Improvements

83. The Service Line Replacements and Improvements program consists of the replacement or the alteration of service lines because of safety, reliability or capacity issues, or as a result of a customer request. The replacement or alteration of service lines with safety, reliability or capacity issues is typically identified through field observations while completing inspections or other work at the same location. Customer driven alterations are the result of customer requests for service line relocations, often as a result of home renovations, landscaping or the construction of additions, decks or garages. For customer requested relocations, a direct customer contribution is required. The need for this program was approved in Decision 3267-D01-2015.⁵¹

84. The 2015 approved forecast capital expenditures for this program were \$2.4 million, while the actual 2015 capital expenditures were close to forecast, with a \$18,000 positive variance for the north. The 2015 approved forecast capital expenditures for this program were

⁴⁷ Exhibit 21843-X0009, application, Table 86.

⁴⁸ Exhibit 21843-X0009, application, paragraph 273.

⁴⁹ Exhibit 21843-X0009, application, Table 91.

⁵⁰ Exhibit 21843-X0009, application, paragraph 310.

⁵¹ Decision 3267-D01-2015, paragraph 327.

\$3.6 million while the actual 2015 capital expenditures were \$4.2 million, resulting in a \$0.6 million positive variance for the south.⁵²

85. For the south, ATCO Gas explained that the primary cause for the variance of \$0.6 million was due to an increase in the number and scope of projects associated with customer-requested alterations in established areas in Calgary. ATCO Gas also explained that there was an increase in large customer-driven service alteration projects with higher cost. Some projects were identified as having a greater than expected magnitude for a typical service line improvement project. This included a wastewater facility in Calgary that required an upgrade to its existing service line to be installed in a paved parking lot, at a cost of \$0.1 million. ATCO Gas also identified a large service alteration project, which was requested by a commercial customer, at a cost of \$40,000. This project was driven by the customer's need to relocate some of its buildings.⁵³

7.2.1.9 New Regulating Meter Stations

86. The New Regulating Meter Stations program consists of installing new stations or upgrading existing stations to increase flow capacity. Projects in this program are driven by customer growth but are not directly related to new customer additions. The need for this program was approved in Decision 20385-D01-2015.

87. The 2015 approved forecast capital expenditures for this program were \$1.449 million in the north, while the actual 2015 capital expenditures were \$1.843 million, resulting in a \$0.385 million positive variance for the north. The 2015 approved forecast capital expenditures for this program were \$1.951 million in the south, while the actual 2015 capital expenditures were \$2.816 million, resulting in a \$865,000 positive variance for the south.⁵⁴

88. ATCO Gas explained that the variance in this program was due to growth in these areas being higher than the three-year average used to generate the forecast capital expenditures. The increased growth resulted in the need for new regulating stations or upgrades in order to manage additional load requirements.⁵⁵

7.2.1.10 Urban Mains Relocations

89. Urban mains relocation work is necessary in order for ATCO Gas to provide safe and reliable gas distribution service. Municipally driven projects include road widening, road rehabilitations, neighborhood rehabilitations, back lane renewals and deep utility improvements. On occasion, ATCO Gas is directed by Alberta Transportation to replace or relocate facilities that interfere with highway expansion projects. ATCO Gas also performs line alterations at the request of landowners. The need for this program was approved in Decision 20385-D01-2015.

⁵² Exhibit 21843-X0009, application, Table 88, paragraph 275.

⁵³ Exhibit 21843-X0009, application, paragraph 281.

⁵⁴ Exhibit 21843-X0009, application, paragraph 283.

⁵⁵ Exhibit 21843-X0009, application, paragraph 290. In paragraph 291, ATCO Gas added, "For example, the two largest projects in the North were a 200m access road to Fort McMurray Gate #6 (\$0.3 million), and Fort McMurray Gate #7 (\$0.2 million). The two largest projects in the South were the new Bears paw Village Gate (\$0.5 million) and Cochrane Gate #2 (\$0.3 million)."

90. The forecast to actual variance for Urban Mains Relocations in 2015 for the north was a negative \$1.7 million, which is the difference between the forecast capital expenditures of \$6.6 million and the actual capital expenditures of \$4.9 million.⁵⁶

91. ATCO Gas explained that expenditures were lower than forecast due to fewer municipal projects occurring and less work with municipalities, developers and Alberta Transportation.⁵⁷

Commission findings

92. With respect to the true-up of 2015 actual costs for projects or programs for which the Commission has previously confirmed the need under the project assessment component of Criterion 1 in prior capital tracker decisions, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a project was no longer required in 2015, ATCO Gas is not required to demonstrate that a project was needed in order to provide utility service at adequate levels in 2015, as would otherwise be required under the project assessment component of Criterion 1. The Commission has previously determined that each of the 10 programs or projects considered in this section related to the projects or programs for which no objections were raised, satisfied the project assessment requirement of capital tracker Criterion 1 in one or more previous years. Moreover, the Commission finds no evidence on the record of this proceeding to indicate that any of the programs or projects listed in this section, for which no objections were raised, were not required in 2015.

93. The Commission reviewed ATCO Gas's 2015 actual capital expenditures associated with each of the programs or projects carried out in 2015 for which no objections were raised, and finds that the capital expenditures are generally consistent with the scope, level and timing of the work outlined in the business cases for these capital trackers and approved in Decision 3267-D01-2015.

94. The Commission has also reviewed the 2015 actual capital additions for each of these programs or projects in light of the evidence supporting these costs, the associated procurement and construction practices and the evidence explaining the differences between approved forecast and actual costs, and finds the actual costs to be prudent.

7.2.2 Projects or programs requiring further comment

95. There was one capital tracker program previously approved for capital tracker treatment in prior decisions for which issues were explored regarding the need, scope, level, timing or costs. The following Section 7.2.2.1 discusses the Plastic Mains Replacement (PMR) program, given the Commission's directions in Decision 20604-D01-2016 and other relevant decisions that address the plastic mains replacement program.

7.2.2.1 Plastic Mains Replacement

96. The PMR program consists of the replacement of polyvinyl chloride (PVC) and early generation pre-1978 polyethylene (PE) pipe. The PMR program includes planned replacement projects and emergency replacement projects required throughout the year. This is a 20-year

⁵⁶ Exhibit 21843-X0009, application, Table 90.

⁵⁷ Exhibit 21843-X0009, application, paragraph 300.

program that commenced in 2011 and is expected to be completed by 2030. The need for this program was previously approved in decisions 2013-435⁵⁸ and 3267-D01-2015.⁵⁹

97. The 2015 approved forecast capital expenditures for this program were \$22.974 million in the north, while the actual 2015 capital expenditures were \$19.367 million, resulting in a \$3.606 negative variance for the north. The 2015 approved forecast capital expenditures for this program were \$25.365 million in the south, while the actual 2015 capital expenditures were \$27.440 million, resulting in a \$2.075 million positive variance for the south.⁶⁰

98. ATCO Gas explained that at the beginning of 2015, there were approximately 7,005 km of mains remaining to be replaced.⁶¹ In Proceeding 3267, ATCO Gas originally proposed a replacement of 450 km of mains and 1,233 services annually, but subsequently updated the forecast in its rebuttal evidence to replace 210 km of mains and 3,150 services.⁶²

99. In support of its capital expenditures and the continued use of its PMR methodology, ATCO Gas referred to Decision 20604-D01-2016, where the Commission approved ATCO Gas's prioritization methodology outlined in its 2016-2017 capital tracker PMR business case.⁶³ Although ATCO Gas's updated methodology for prioritization currently results in less than the forecast average number of mains (450 km) being replaced annually, ATCO Gas stated it would replace more than the average number of services (1,233). The updated methodology approved in Decision 20604-D01-2016 initially reduces the number of mains being replaced on an annual basis, but as the years progress, the number of mains replaced will continue to increase to over 450 km annually, later in the program, with service density subsequently decreasing on an annual basis in later years.⁶⁴

100. For the purposes of demonstrating the variances in 2015, ATCO Gas provided the actual and approved forecast costs, and pipeline lengths for plastic mains for planned replacements, as well as the actual and approved forecast costs for emergency replacements completed in 2015 for the north and south. This information is reproduced in the following table:

⁵⁸ Decision 2013-435, paragraph 647.

⁵⁹ Decision 3267-D01-2015, paragraph 269.

⁶⁰ Exhibit 21843-X0009, application, Table 33, paragraph 170.

⁶¹ Exhibit 21843-X0009, application, paragraph 173.

⁶² Exhibit 21843-X0009, application, Table 34.

⁶³ Decision 20604-D01-2016, paragraph 225.

⁶⁴ Exhibit 21843-X0009, application, paragraph 176.

Table 11. 2015 PMR program – actual versus approved forecast and variances

	Forecast	Actual	Variance	Variance
	(\$000)			(%)
North				
Km	N/A** 65	91	N/A	N/A
\$000/km	<u>225.3</u>	<u>207.0</u>	<u>(18.3)</u>	(8)
North Planned	22,339	18,837	(3,502)	(16)
Emergency	<u>635</u>	<u>531</u>	<u>(104)</u>	(16)
Total North	22,974	19,367	(3,606)	(16)
South				
Km	<u>NA**</u>	160	NA	NA
\$000/km	<u>225.3</u>	169.9	(55.4)	(25)
South Planned	<u>24,966</u>	27,188	2,222	9
Emergency	<u>399</u>	252	(147)	(37)
Total South	25,365	27,440	2,075	8
Total				
Km	<u>210*</u>	251	41.0	20
\$000/km	<u>225.3</u>	183.4	(41.9)	(19)
Total Planned	<u>47,305</u>	46,025	(1,280)	(3)
Total Emergency	<u>1,034</u>	783	(251.0)	(24)
Total	48,339	46,808	(1,531)	(3)

*Overall mains target as stated in paragraph 144 of rebuttal evidence in Proceeding 3267.

**Mains targets at time of the submission of rebuttal evidence in Proceeding 3267 were not split north and south.

Source: Exhibit 21843-X0009, application, Table 35, paragraph 178.

101. Total expenditures for planned replacements for the north were \$3.6 million below forecast, while total expenditures for planned replacements for the south were \$2.1 million higher than forecast. By combining both the north and south regions, the total capital expenditures for planned and emergency replacements resulted in a total spend that was three per cent less than forecast, as shown in the table above.

102. For the north and south, ATCO Gas forecast to replace 210 km of mains and 3,150 services in 2015, corresponding to a service density of 15 (equal to $3,150/210 = 15$). In 2015, ATCO Gas replaced 251 km of mains and 2,825 services, corresponding to a service density of 11.3 (equal to $2,825/251 = 11.255$).⁶⁶ ATCO Gas stated that the original scope of work, which included replacing 210 km and 3,150 services, was an estimate based on an anticipated project list using the new prioritization method. Once projects were prioritized using the new prioritization model, the actual scope of work varied and resulted in an overall increase in the amount of pipe replaced and an overall decrease in the number of services replaced, thereby

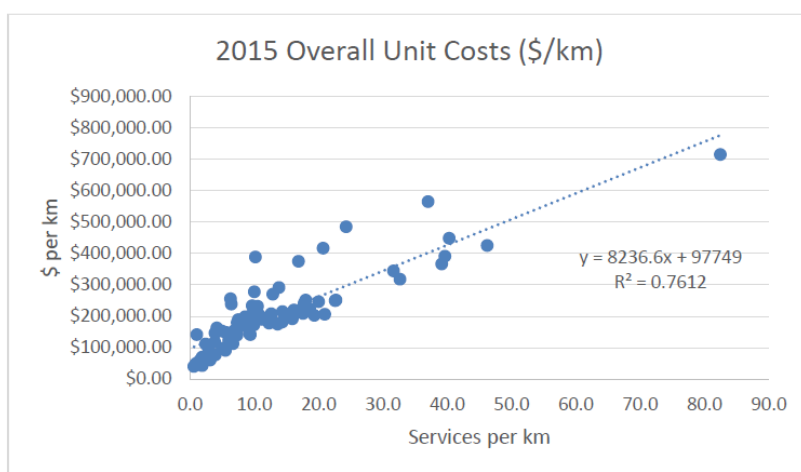
⁶⁵ Exhibit 21843-X0028, AG-AUC-2016SEP06-013 (d). ATCO Gas stated that the updated forecast of 210 km and 3,150 services was provided in the rebuttal evidence of Proceeding 3267 to reflect the updated prioritization methodology. A split between north and south of the total mains was not provided in that updated forecast as these were not known at that time.

⁶⁶ Exhibit 21843-X0009, application, Table 34, paragraph 175.

lowering service density.^{67 68} In response to a Commission IR, ATCO Gas stated that the overall program scope in 2015 was marginally higher, while costs were marginally lower than forecast. Sources of variance that can impact actual costs per km, referenced by ATCO Gas, include: contractor assignment/utilization, installation method, and effective work scheduling to take advantage of seasonal conditions.⁶⁹

103. ATCO Gas used regression analysis in support of the application to explain the deviation in the 2015 unit costs. As shown in Table 1, unit costs were eight per cent lower than forecast in the north and 25 per cent lower than forecast in the south.⁷⁰ In its explanation of its regression analysis, ATCO Gas provided the following figure, for illustrative purposes, where a line of best fit was used to show the relationship between service density (services/km) and cost (cost/km of main replaced). ATCO Gas stated that this linear regression, shown below, was developed using actual costs from projects completed in 2015:

Figure 1 Linear regression using 2015 PMR project actual costs⁷¹



104. ATCO Gas regressed cost per km on service density (services/km) for the north and south, as shown in Figure 1. ATCO Gas plotted the service densities and actual costs (north and south combined), which resulted in the following regression equation to determine the cost per km for the north and south for PMR:⁷²

$$\text{Cost per km} = \$8236.6 \times (\text{service density}) + \$97,749$$

105. ATCO Gas input its forecast service density of 15 into this estimated regression equation, yielding a unit cost per km of \$221,298.⁷³ ATCO Gas then compared this unit cost of \$221,298

⁶⁷ Exhibit 21843-X0009, application, paragraph 179.

⁶⁸ Exhibit 21843-X0028, AG-AUC-2016SEP06-013(a) where ATCO Gas confirmed that the correct value for planned services is 3,150 and not 2,800 as stated in paragraph 179 of the application.

⁶⁹ Exhibit 21843-X0028, AG-AUC-2016SEP06-013(f).

⁷⁰ Exhibit 21843-X0009, application, paragraph 179.

⁷¹ Exhibit 21843-X0009, application, Figure 1, paragraph 181.

⁷² Exhibit 21843-X0009, application, paragraph 181.

⁷³ Cost per km = \$8,236.60 x (15) + \$97,749 = \$221,298.

for the north and south to the forecast unit cost of \$225,300 identified in Table 11, which resulted in a variance of less than two per cent from forecast.⁷⁴

106. ATCO Gas explained that the primary reason for deviations in actual versus forecast unit costs was due to differences between the actual service densities in the north and the south compared to the forecast service density.⁷⁵ To illustrate this effect, ATCO Gas substituted the 2015 actual service densities of 13.8 in the north and 9.8 in the south into the estimated regression equation.⁷⁶ This resulted in unit costs of \$211,400 for the north,⁷⁷ and \$178,500 for the south.⁷⁸ ATCO Gas compared these unit costs to the 2015 actual unit costs, from Table 11, of \$207,000 and \$169,900 in the north and south, respectively. This yielded a deviation of two per cent between forecast and actual for the north and five per cent for the south. This reduction in unit cost variances, from eight per cent (in Table 11) to two per cent for the north and from 25 per cent (in Table 11) to five per cent for the south, led ATCO Gas to conclude that 75 per cent of the unit rate deviation is the result of service density, and that service density is therefore the most significant factor influencing unit rate costs.⁷⁹

107. For emergency replacements, ATCO Gas identified a variance of 16 per cent below forecast for the north and 37 per cent below forecast for the south. Since emergency replacements are forecast based on a three-year average, ATCO Gas stated the actual costs associated with emergency replacement will typically vary year-to-year.⁸⁰

Commission findings

108. The need for the PMR program as part of the project assessment under capital tracker Criterion 1, was previously approved in decisions 2013-435⁸¹ and 3267-D01-2015.⁸² With respect to the true-up of 2015 actual costs, as noted in Section 4, if there is an absence of evidence on the record of this proceeding demonstrating a project was not required in 2015, there is no need to demonstrate that a project is required in order to provide utility service at adequate levels in 2015, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the PMR program was not required in 2015.

109. Although ATCO Gas is not required to demonstrate the need for the PMR program in 2015, it must still provide sufficient evidence to demonstrate that the scope, level, timing and actual costs of the program were prudent in 2015. In this regard, the Commission has reviewed ATCO Gas's actual capital expenditures of \$19.4 million in the north and \$27.4 million in the south for this program in 2015, and finds that that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker that was approved in Decision 3267-D01-2015.

⁷⁴ Exhibit 21843-X0009, application, paragraph 182.

⁷⁵ Exhibit 21843-X0009, application, paragraph 180.

⁷⁶ Exhibit 21843-X0009, application, paragraph 180.

⁷⁷ Cost per km = $\$8,236.60 \times (13.8) + \$97,749 = \$211,400$ for the north.

⁷⁸ Cost per km = $\$8,236.60 \times (9.8) + \$97,749 = \$178,500$ for the south.

⁷⁹ Exhibit 21843-X0009, application, paragraph 183, and Exhibit 21843-X0028, AG-AUC-2016SEP06-014(c).

⁸⁰ Exhibit 21843-X0028, AG-AUC-2016SEP06-013(h).

⁸¹ Decision 2013-435, paragraph 647.

⁸² Decision 3267-D01-2015, paragraph 266.

110. As discussed above, ATCO Gas has used regression analysis to support the 2015 variances for planned replacements. In Decision 20604-D01-2016, the Commission previously found that a regression analysis, as used by ATCO Gas in its business case for the program, can be a useful tool to model, and subsequently forecast, cost or cost per km.⁸³ ATCO Gas confirmed that the purpose of the regression analysis in this application was to support an explanation that the observed cost per km decreases are the result of decreases in the actual service densities.⁸⁴ Specifically, the service density for the north decreased from a forecast of 15 to an actual of 13.8, where the cost per km also decreased from the forecast unit cost of \$225,300 to an actual unit cost of \$211,400. Similarly, the service density for the south decreased from a forecast of 15 to an actual of 9.8, and the cost per km also decreased from the forecast unit cost of \$225,300 to an actual unit cost of \$178,500. Based on the regression analysis and other supporting information, the Commission accepts ATCO Gas's submission that the lower service densities are the principle reason for the unit cost variances in 2015.

111. The Commission has reviewed the costs of the 2015 actual capital additions for both planned and emergency replacements for the PMR program in light of the evidence supporting these costs. The changes in unit costs and service densities from forecast to actuals in 2015 are supported by the regression analysis, the variance explanations, and the other cost information provided on the record. Accordingly, the Commission finds the actual costs for the PMR program to be prudent for 2015 and that the PMR program continues to satisfy the project assessment requirement of Criterion 1.

7.3 New capital tracker program – Alberta Floods

112. ATCO Gas applied for one new capital tracker program, not previously approved for capital tracker treatment on an actual or forecast basis; the Alberta Floods program. As set out in Section 4 of this decision, the Commission generally undertakes assessments with respect to all three criteria for capital tracker treatment for all capital projects or programs that the Commission has not considered in prior capital tracker decisions. This section deals with the need, as well as the scope, level and timing and associated 2014 and 2015 actual costs for this program as part of the project assessment under Criterion 1.

113. The Alberta Floods program captures the expenditures associated with repairs required to ATCO Gas's facilities damaged as a result of severe flooding along the Bow, Elbow, Red Deer and Highwood rivers in June 2013. ATCO Gas stated that replacement of flood damaged facilities was necessary in order for ATCO Gas to maintain service to existing customers in a safe and reliable manner. The flood resulted in loss of service to customers and safety risks in the form of exposed, severed, or leaking gas facilities. As such, ATCO Gas requested capital tracker treatment for the Alberta Floods program on an actual expenditures basis for 2014 and 2015 for the south.

114. In Section 6 of this decision, the Commission approved the separate grouping of the costs associated with the Alberta Floods program. As also set out in Section 6, ATCO Gas originally sought to recover the costs related to the 2013 southern Alberta floods through a Z factor application.

⁸³ Decision 20604-D01-2016, paragraph 266.

⁸⁴ Exhibit 21843-X0028, AG-AUC-2016SEP06-014(b).

115. With regard to the 2014 actual costs incurred for this program of \$4.229 million, ATCO Gas indicated that the 2014 expenditures were detailed in the Z factor application and were found to be prudent by the Commission in Decision 2738-D01-2016:

33. The Commission has also reviewed the capital costs incurred by ATCO Gas in response to this event. ATCO Gas completed nearly 90 per cent of its infrastructure repair and replacement by the end of 2014. The Commission finds the scope of the work performed and timing of the repair and replacement activity to be reasonable. The quantum of the capital costs has also been reviewed by the Commission. The majority of the costs were incurred to restore damaged mains and, by the end of 2014, ATCO Gas had completed 40 individual mains restoration projects. Further, the Commission notes that the two most expensive mains replacement projects (17th Ave. SE and Siksika-Bow River SW) both involved replacing mains which crossed rivers. Replacing river-crossing mains clearly adds a level of difficulty and therefore increased costs. The Commission finds the quantum of capital costs incurred by ATCO Gas in response to this event to be reasonable.

...

35. Accordingly, the Commission is satisfied, based on the evidence before it, that the capital costs incurred by ATCO Gas in response to the event were prudently incurred. [footnotes omitted].

...

67. With regard to the capital-related costs incurred in the years 2014 to 2017, which have not been approved for Z factor treatment, the determination of the Commission in this decision does not preclude ATCO Gas from bringing forward an application for additional funding for these capital costs by way of a K factor, provided the Commission's criteria for capital tracker treatment are satisfied.⁸⁵

116. The 2015 forecast capital expenditures for this program, as applied for in the Z factor application, were \$0.810 million, while the actual 2015 capital expenditures were \$0.858 million for a variance of 5.9 per cent. ATCO Gas noted that the scope of work completed in 2015 consisted of a single project, the replacement of the Lac Des Arcs station and feeder main. The project involved building a new station in a new location away from the unstable boundaries of the water body and the installation of 275 metres of 60 mm PE pipe. The project in Lac Des Arcs was originally planned to be completed in 2014 but experienced delays due to land access issues and complexity related to acquiring a new station location.⁸⁶

Commission findings

117. Consistent with the approvals in Decision 2738-D01-2016, which found that the capital costs incurred by ATCO Gas in response to the southern Alberta floods in 2013 and 2014 were prudently incurred, the Commission finds that the capital expenditures under the Alberta Floods program were required to maintain service reliability and safety at adequate levels.

⁸⁵ Decision 2738-D01-2016, paragraphs 33, 35 and 67.

⁸⁶ Exhibit 21843-X0009, application, paragraphs 328-329.

118. The 2014 actual capital expenditures for this program of \$4.229 million were the same capital expenditures found to be prudent in Decision 2738-D01-2016.⁸⁷ As such, there is no need for the Commission to reassess these costs.

119. With respect to the scope, level and timing and the resulting 2015 actual capital expenditures associated with this program of \$0.858 million, the Commission finds that the capital expenditures are generally consistent with the scope, level and timing of the work put forward in the Z factor proceeding, Proceeding 2738. Specifically, the capital expenditures of \$0.858 million were for the replacement of the Lac Des Arcs station and feeder main, which was completed in 2015, as planned.

120. The Commission has reviewed the 2015 actual capital expenditures for this program and finds the actual costs to be prudent. In light of the above considerations, the Commission finds that this program satisfies the requirements of the project assessment test of Criterion 1.

8 Accounting test under Criterion 1 – the project must be outside of the normal course of the company’s ongoing operations and Commission conclusion on Criterion 1

8.1 Accounting test for the 2015 true-up

121. As explained in Decision 2013-435, the purpose of the accounting test is to determine whether a project or program (depending on the approved level of grouping) proposed for capital tracker treatment is outside the normal course of the company’s ongoing operations. This is achieved by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the project or program.⁸⁸

122. The accounting test is described in Section 7.1 of Decision 20555-D01-2016,⁸⁹ at paragraphs 460 to 468. The accounting is described as follows in Decision 20604-D01-2016:

387. In Decision 2013-435, the Commission determined that the accounting test should be based on a “project net cost approach,” which is sufficient to satisfy the Commission that all of the forecast or actual expenditures for a capital project are, or a portion is, outside the normal course of the company’s ongoing operations, as required to satisfy Criterion 1. Under this approach, the extent to which a project is underfunded by the I-X mechanism is calculated by comparing the forecast or actual revenue requirement for that project to the going-in revenue historically associated with a similar type of capital expenditure escalated by I-X and including the effect on revenue of any changes in billing determinants. The effect on revenue of any changes in billing determinants, which is calculated as the forecast percentage change in billing determinants in any given PBR year, is referred to as the “Q” or “Q factor.”

388. As set out in Section 4.4 of Decision 2013-435, the accounting test, as it relates to revenue calculations, consists of two components. The first component is the revenue

⁸⁷ Decision 2738-D01-2016, Table 2 and paragraphs 33-35.

⁸⁸ Decision 2013-435, paragraphs 149-150.

⁸⁹ Decision 20555-D01-2016: ATCO Electric Ltd., 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 20555, March 3, 2016.

provided under the I-X mechanism for a project or program proposed for capital tracker treatment. As explained in Decision 3434-D01-2015,⁹⁰ this component of the accounting test utilizes the weighted average cost of capital (WACC) rate embedded in a company's approved going-in rates and requires assumptions regarding the values for the I-X index and Q factor for each year.

389. The second component is the revenue requirement calculations based on the forecast or actual capital additions for that project or program for a given PBR year, approved by the Commission as part of the project assessment review under Criterion 1. As set out in Decision 3434-D01-2015, for purposes of the revenue requirement calculations, this component of the accounting test requires assumptions regarding the current year's WACC rate, namely, cost of debt, approved return on equity (ROE) and capital structure, including preferred shares. [footnotes omitted]

123. ATCO Gas's calculation of the accounting test model for the 2015 capital tracker true-up was provided in Appendix A of the application.⁹¹

124. For the 2015 capital tracker true-up, ATCO Gas used the following assumptions in its accounting test:

Table 12. ATCO Gas's 2015 capital tracker true-up accounting test assumptions

2015 I-X index	1.49%
2015 Q factor	2.23% north 1.98% south
2015 actual weighted average cost of capital (WACC)	6.58%

Source: Exhibit 21843-X0009, application, paragraph 86.

125. ATCO Gas's actual 2015 WACC rate of 6.76 per cent is based on the actual cost of debt of 5.60 per cent, the approved equity thickness of 38 per cent and the approved ROE of 8.3 per cent, as determined in the 2013 generic cost of capital (GCOC) Decision 2191-D01-2015.⁹²

126. No party raised issues with ATCO Gas's 2015 I-X index and 2015 Q factor values nor the actual WACC rate used in the first component of the accounting test. With respect to the 2015 actual WACC rate used, the CCA brought forward some issues surrounding the debt practices of ATCO Gas. These issues are discussed in Section 8.3 below.

Commission findings

127. The Commission has reviewed ATCO Gas's schedules that make up its accounting test analysis for the purposes of the 2015 capital tracker true-up and finds these schedules to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. The Commission has verified ATCO Gas's WACC, I-X and Q factor assumptions used in the first component of the accounting test, and finds that ATCO Gas used the correct values.

⁹⁰ Decision 3434-D01-2015: Distribution Performance-Based Regulation, Commission-Initiated Review of Assumptions Used in the Accounting Test for Capital Trackers, Proceeding 3434, Application 1610877-1, February 5, 2015.

⁹¹ Exhibit 21843-X0008, Appendix A.

⁹² Decision 2191-D01-2015: 2013 Generic Cost of Capital, Proceeding 2191, Application 1608918-1, March 23, 2015.

128. In Decision 3434-D01-2015, the Commission determined that revenue requirement calculations in the second component of the accounting test should be based on the current year's WACC rate which, in turn, is calculated based on the actual or forecast cost of debt, as well as the approved ROE and capital structure for that year.⁹³ With the exception of the CCA's concern regarding the actual debt cost component of WACC discussed in Section 8.3, no party raised concerns with ATCO Gas's calculations of the 2015 actual WACC rate. In Section 8.3 below, the Commission finds ATCO Gas's 2015 actual weighted average cost of debt (WACD) of 5.60 per cent to be reasonable for purposes of the accounting test.

129. Therefore, the Commission finds ATCO Gas's 2015 actual WACC rate of 6.58 per cent used in the second component of its accounting test, based on the 2015 actual WACD of 5.60 per cent, as well as the approved equity thickness of 38 per cent and the approved ROE of 8.3 per cent from Decision 2191-D01-2015, to be reasonable.

130. For the reasons above, the Commission is satisfied that ATCO Gas's accounting test model sufficiently demonstrates that all of the actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the accounting test component of Criterion 1. The Commission's determinations on whether ATCO Gas's projects or programs proposed for capital tracker treatment in 2015 on an actual basis satisfy both the accounting test and the project assessment components of Criterion 1, are set out in Section 8.4 below.

8.2 Accounting test for the 2014 Alberta Floods costs

131. ATCO Gas performed the accounting test for the Alberta Floods program reflecting the 2014 actual capital expenditures of \$4.229 million. The resulting portion of the program's 2014 actual revenue requirement not funded under I-X amounted to \$375,000 in the south.⁹⁴

Commission findings

132. The Commission has reviewed ATCO Gas's accounting test for the Alberta Floods program reflecting the 2014 actual capital expenditures and finds the results to be reasonable and consistent with the accounting test assumptions for 2014 K factor true-up approved in Decision 20604-D01-2016. Therefore, the Commission finds that the Alberta Floods program satisfies the accounting test under Criterion 1 on an actual capital expenditures basis in 2014.

8.3 2015 actual debt rate used in the accounting test

133. As set out in Section 8.1, consistent with the directions in Decision 3434-D01-2015, ATCO Gas used the actual 2015 WACC rate of 6.58 per cent, in the second component of its accounting test for the 2015 true-up, based on the 2015 actual WACD, also referred to as embedded debt cost rate, of 5.60 per cent, as well as the approved equity thickness of 38 per cent and ROE of 8.3 per cent from Decision 2191-D01-2015. ATCO Gas's actual 2015 WACD of 5.60 per cent as reported in its Rule 005⁹⁵ filing, is a blend of ATCO Gas's new \$45 million

⁹³ Decision 3434-D01-2015, paragraph 40.

⁹⁴ Exhibit 21843-X0009, application, Table 4 and Exhibit 21843-X0001, application, Schedule A9 of Appendix A.

⁹⁵ Rule 005: *Annual Reporting Requirements of Financial and Operational Results*.

long-term debt issue in 2015 with a coupon rate of 4.21 per cent, and rates for 20 prior debt issues dating back to 1990.⁹⁶

134. In its evidence, the CCA raised concerns with the debt practices of ATCO Gas that, in its view, resulted in ATCO Gas overcharging its customers. In their respective arguments and reply arguments, the parties commented on the issues presented in the CCA's evidence and information found in ATCO Gas's rebuttal evidence. The Commission below summarizes the contentious issues and some of the related evidence and argument.

8.3.1 Actual cost of debt compared to ATCO Gas's calculated WACD used in the 2015 capital tracker true-up calculations

135. The CCA noted that ATCO Gas, for capital tracker purposes, relies on its calculations for debt, which are provided in filings pursuant to Rule 005.⁹⁷ The CCA argued that the way the embedded debt cost rate using WACD is calculated and presented in ATCO Gas's Rule 005 filings does not represent the company's actual cost of debt.⁹⁸ Further, the CCA asserted:

In reviewing Rule 005 and interest calculations it is clear that ATCO has different interpretations of what is to be reported than other utilities. AG uses a mid-year carrying cost for its one to two debt issuances per year. It discloses "Bank Charges and Financing" which the reader would presume to include all bank charges and interest costs but as discussed below, this is not the case. ATCO also shows that there was not short term debt expense. This is different than other utilities...⁹⁹

136. In addition, in ATCO Gas's Rule 005 filings, financial interest income and expense (that includes interest income/expense on the short-term debt balances) is excluded from utility income and expense.¹⁰⁰ This, according to the CCA, allows ATCO Gas to earn short-term interest on cash balances that do not offset the cost of the long-term debt.¹⁰¹ The CCA stated that ATCO Gas's practice raises certain questions on the prudence and cost to ATCO Gas customers.¹⁰² In the CCA's submission,¹⁰³ the calculation of WACD in other utilities' Rule 005 filings is able to reflect interest costs on debt. ATCO Gas is not recording the actual interest expense incurred with respect to capital trackers.¹⁰⁴

137. ATCO Gas responded that it includes actual debt issuances in Schedule 2.3 of Rule 005, and stated:

Schedule 2.3 of Rule 005 calculates the actual mid-year average embedded cost of debt which is then applied to the deemed (approved) portion of mid-year rate base (approved capital structure is 38% equity and 62% debt for 2015) on Schedule 2.0.¹⁰⁵

⁹⁶ ATCO Gas 2015 Rule 005, Schedule 2.3.

⁹⁷ Exhibit 21843-X0054, CCA evidence, paragraph 5.

⁹⁸ Exhibit 21843-X0072, CCA argument, paragraph 88.

⁹⁹ Exhibit 21843-X0054, CCA evidence, paragraph 11.

¹⁰⁰ Exhibit 21843-X0054, CCA evidence, paragraph 16 with reference to Exhibit 21843-X0030, ATCO Gas Round 1 IR to CCA, AG-CCA-2016SEP06-028(a).

¹⁰¹ Exhibit 21843-X0054, CCA evidence, paragraph 22 and Section 6 of the CCA's evidence in general.

¹⁰² Exhibit 21843-X0054, CCA evidence, paragraph 23.

¹⁰³ Exhibit 21843-X0054, CCA evidence, paragraphs 10, 21 and 24.

¹⁰⁴ Exhibit 21843-X0054, CCA evidence paragraph 19.

¹⁰⁵ Exhibit 21843-X0050, ATCO Gas response to CCA motion, paragraph 3.

138. ATCO Gas added that Decision 3434-D01-2015 and Bulletin 2016-03¹⁰⁶ clearly direct the PBR utilities to use the current embedded debt rate on its actual debt issues along with the approved ROE and deemed capital structure in the capital tracker K factor calculations.¹⁰⁷ ATCO Gas stated that it does not have a different interpretation of what other utilities are reporting regarding Rule 005 and interest calculations. ATCO Gas stated:

All Alberta utilities are required to complete their Rule 005 filing using the mid-year convention in the calculation of the capital structure including its application to debt costs. This requirement by the Commission dates back many years and is outlined in the Rule 005 templates available on the Commission's website.¹⁰⁸

139. ATCO submitted that no short-term debt interest has been included in the accounting test calculations nor in the K factor. No short-term debt costs or overdraft costs have been borne by customers. The quantum of long-term debt factored into those calculations is governed by the relevant GCOC decision, which stipulates the debt and equity ratios to be used by the utility.¹⁰⁹

8.3.2 ATCO Gas's 2015 debt issuances and positive cash balances

140. The CCA stated that ATCO Gas is taking on more debt than is required for the alleged purpose of maintaining positive cash balances to earn revenue not attributed to customers while charging the customers the deemed costs of the debt.¹¹⁰ The CCA's evidence noted that ATCO Gas's cash balances have been increasing. The CCA argued that "[t]here is a regular pattern of high and increasing cash levels which appear to be financed or enable by the issuance of long term debt."¹¹¹ According to the CCA's evidence, it would make more sense to finance cash using short-term debt or banking arrangements with a better interest rate. The CCA further noted that other utilities are not carrying large cash balances.¹¹²

141. ATCO Gas responded that it has been a basic financing tenet that long lived assets should be financed with long-term debt. There is no evidence provided that ATCO Gas's long-term debt issuances are not being used to finance long-term utility assets.¹¹³ Further, ATCO Gas indicated:

... ATCO Gas seeks to match the timing of its debt incurrence with its need for debt in order to avoid any negative impact on credit metrics that premature financing might have. It also attempts to match its actual capital structure with the capital structure approved in GCOC proceedings. In doing so, ATCO Gas continues to demonstrate its longstanding, prudent approach to its financing activities.¹¹⁴

142. ATCO Gas stated actual financing needs in any given month will vary due to a variety of factors including the timing of capital expenditures and the timing of long-term debt issuances. Further, during the heating season of October to March, ATCO Gas requires higher cash flows.

¹⁰⁶ Bulletin 2016-03, Clarification of Rule 005 financial reporting requirements, February 2, 2016.

¹⁰⁷ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 10.

¹⁰⁸ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 17.

¹⁰⁹ Exhibit 21843-X0071, ATCO Gas argument, paragraphs 35 and 40.

¹¹⁰ Exhibit 21843-X0054, CCA evidence, paragraph 24.

¹¹¹ Exhibit 21843-X0054, CCA evidence, paragraph 24.

¹¹² Exhibit 21843-X0072, CCA argument, paragraph 115.

¹¹³ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 31.

¹¹⁴ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 27.

Cash flows can also fluctuate due to rider forecast variations, such as what occurred in its recent weather deferral account Rider W (Proceeding 21584) application.¹¹⁵

143. ATCO Gas noted that its 2015 cash balances are not negatively impacting its customers. ATCO Gas provided an example which showed that if it had reduced its 2015 long-term debt issuance by \$60 million, its average embedded debt cost rate would have increased to 5.63 per cent from 5.60 per cent.¹¹⁶ This scenario would have resulted in a corresponding increase to the K factor amount to be recovered from ratepayers.

144. ATCO Gas concluded that customers are not being over-charged by ATCO Gas as a result of higher debt issuances. Only 62 per cent of the utility mid-year invested capital tracker was financed through debt financing, regardless of the actual amount of debt issuance. For other costs under PBR, the going-in rates are determinative of what customers pay, and if actual costs vary, customers are not affected.¹¹⁷

145. The CCA stated that short-term credit facilities have been used three months out of 36 and as a result, customers have paid more for those charges than necessary.¹¹⁸ In its evidence, the CCA stated the following:

The third extra costs are the credit facility costs for short term borrowing when short term borrowings are minimal (in 2015 there were none.) There is currently no data available on this since until the information was filed showing significant and regular cash surpluses, there was no reason to ask why ATCO actually negotiated for short term credit facilities since none were used in 2015. The reasons these fees should be disallowed is that it appears from the pattern of cash surpluses that ATCO has been pursuing it practise of over borrowing more aggressively as time went on, as cash surpluses have been increasing in size and duration and the negative balances or overdrafts have decreased from 2 in 2013 to 1 in 2014 and 0 in 2015 ...¹¹⁹

146. ATCO Gas explained that its parent, Canadian Utilities Limited (CU), maintains credit facilities to ensure sufficient liquidity is available for use by the utilities. The utility seeks to match the timing of the debt issuances with its need for debt in order to avoid any negative impact on credit metrics that early financing may have. The financing costs are allocated to the utilities consistent with the approved corporate cost allocation methodology. ATCO Gas noted that the financing costs and allocation methodology were approved in Decision 2011-450.¹²⁰ Therefore, the costs included in the calculated average embedded cost of debt rate are legitimately incurred and should be included as part of the K factor.¹²¹

147. In argument and reply argument, the CCA argued further that the long-term debt issuance pattern harmed the customers of ATCO Gas. The CCA submitted that “[i]ssuing short term debt solves ATCO’s problems in forecasting discussed earlier. This only makes sense. Short term, not

¹¹⁵ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 29.

¹¹⁶ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 36.

¹¹⁷ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 36.

¹¹⁸ Exhibit 21843-X0054, CCA evidence, paragraph 39.

¹¹⁹ Exhibit 21843-X0054, CCA evidence, paragraph 42.

¹²⁰ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 42.

¹²¹ Exhibit 21843-X0076, ATCO Gas reply argument, paragraph 146.

long term debt should be used to deal with short term cash flow issues as it is cheaper and more flexible.”¹²²

148. ATCO Gas responded:

... the fact PBR incents utilities to save costs while operating under a revenue cap logically means a successful company may accrue larger cash balances than in the past. If a positive cash balance is somehow viewed as a problem (which it should not be), rather than disallowing debt costs, the solution would appear to be a more frequent and larger distribution of positive cash balances to shareowners.¹²³

149. ATCO Gas submitted that it aligns its actual capital structure to its approved deemed capital structure.¹²⁴

150. Overall, the evidence of the CCA recommended that extra interest incurred on debt should be disallowed in the K factor calculation, on a prorated basis, based on the percentage of capital tracker capital to total capital spending, as these amounts were not required.¹²⁵ ATCO Gas, stated that this position should be rejected because, if the 2015 long-term debt issuance (which has a lower interest rate than the embedded rate) is decreased, the result is that the customers would pay more in the K factor.¹²⁶

Commission findings

151. The CCA’s evidence centers around the claim that ATCO Gas is overcharging its customers due to higher levels of debt than are required, with the implication that the company’s actual incurred cost of debt was not reasonable. The CCA objected to what it perceived to be the “additional interest expense that occurs due to more borrowing than is required.”¹²⁷ With respect to this issue, the Commission accepts ATCO Gas’s explanation that a higher amount of borrowing does not result in a higher amount of interest expensed and passed on to customers. For rate making purposes, the volume of debt is based on the approved deemed, not actual, capital structure. The deemed capital structure determines the proportions of the mid-year rate base financed by equity and debt. More specifically, under the existing PBR plan, ATCO Gas’s actual cost of debt affects customer rates only through the K factor adjustment. For a true-up application, ATCO Gas would flow-through to customers the interest expense associated with the 62 per cent¹²⁸ of debt in the deemed capital structure of the utility, based on the approved mid-year invested capital tracker capital in 2015, regardless of the actual amount of debt issued. All other costs under PBR, including the remaining debt costs, are recovered through rates indexed by the I-X mechanism and therefore, if these actual costs vary, there is no effect on customer rates.

152. The CCA also raised issues with the calculation of the embedded debt cost rate and the debt information presented in ATCO Gas’s Rule 005 filings. The inclusion of debt with respect to Rule 005 was discussed in Decision 20522-D02-2016, dealing with AltaGas Utilities Inc.’s

¹²² Exhibit 21843-X0072, CCA argument, paragraph 134.

¹²³ Exhibit 21843-X0076, ATCO Gas reply argument, paragraph 99.

¹²⁴ Exhibit 21843-X0076, ATCO Gas reply argument, paragraph 103.

¹²⁵ Exhibit 21843-X0054, CCA evidence, paragraph 48.

¹²⁶ Exhibit 21843-X0076, ATCO Gas reply argument, paragraph 136.

¹²⁷ Exhibit 21843-X0054, CCA evidence, paragraph 41.

¹²⁸ Decision 2191-D01-2015, Table 10.

2014 capital tracker true-up and 2016-2017 capital tracker forecast. In that decision, the Commission made the following determination regarding the review process to establish the reasonableness of a company's actual debt costs included in the capital tracker true-up accounting test. This determination has been applied in subsequent capital tracker decisions for all PBR distribution utilities:

329. At paragraph 89 of Decision 3434-D01-2015, the Commission determined that "... the embedded debt rate used in the second component of the accounting test in the true-up process should match the rate that appears on the company's Rule 005 filing from the associated year, and if it does not match, the Commission directs the company to provide an explanation of why it does not match, in its capital tracker true-up application." Therefore, the Commission will accept, in the absence of any evidence that the actual incurred cost of debt was not reasonable, the company's embedded debt rate that appears on the company's Rule 005 filing from the associated year for purposes of the second component of the accounting test in the capital tracker true-up process. This approach recognizes the PBR incentives provided in Decision 2012-237, which allow companies to manage their businesses during the PBR term, to be followed by a prudence review upon re-basing or in a future rate application. Accordingly, the prudence of the debt rates reported in the company's Rule 005 filing during the PBR term will be included in the prudence review at the time of rebasing for purposes of establishing the going-in rates on a go-forward basis for the next generation PBR plan or in a general rate application.

153. Regarding the CCA's recommendation that the actual cost of debt should be used rather than the embedded cost of debt from Rule 005, the Commission found the following Decision 21805-D01-2017:¹²⁹

210. ... In a similar vein, while the Commission generally agrees with the CCA's submission that paragraph 329 of Decision 20522-D02-2016^[130] allows for a possibility that actual costs of debt for capital tracker purposes may be different from the cost of debt reported in a Rule 005 filing, the Commission considers that addressing such fundamental issues as to whether to employ the mid-year convention and include short-term debt costs in calculating the WACD rate for capital tracker purposes merits a wider forum than the present application and should be addressed in a generic proceeding such as, for example, the one leading up to Decision 3434-D01-2015. The Commission also sees merit in ATCO Electric's argument that addressing some of these matters is also likely to have GCOC implications and these matters are better considered in the GCOC proceeding. Therefore, for the purposes of this decision, the Commission will accept the embedded debt cost rate from ATCO Electric's Rule 005 filing as the actual WACD to be used in the second component of the accounting test in the capital tracker true-up process.¹³¹ [footnotes removed]

154. The Commission reiterates its findings in Decision 21805-D01-2017 that a capital tracker true-up application is not the forum to review debt issuance practices. While the Commission acknowledges that a company's practices with respect to debt issuances affect the embedded debt cost rate, also referred to as the WACD, (for example, through targeting the mix of the long-

¹²⁹ Decision 21805-D01-2017: ATCO Electric Ltd., 2015 Performance-Based Regulation Capital Tracker True-Up, Proceeding 21805, April 27, 2017.

¹³⁰ Decision 20522-D02-2016: AltaGas Utilities Inc., 2014 Capital Tracker True-Up and 2016-2017 Capital Tracker Forecast Application, Proceeding 20522, January 21, 2016.

¹³¹ Decision 21805-D01-2017, paragraph 210.

term and short-term debt issuances or the timing of issuance or mirroring of debt cost from the corporate parent), a capital tracker true-up application is not the forum to review these practices because they concern financing the entire utility operations, including operating and maintenance costs and the capital costs under I-X. In the Commission's view, a general review of the utilities' debt practices is better suited for examination in a GCOC proceeding.

155. The CCA evidence and argument clearly suggest that the actual debt costs incurred by the corporate finance department of CU and then mirrored down to ATCO Gas, should be used in order to determine what the K factor costs borne by rate-payers ought to be. The Commission agrees with ATCO Gas that this is essentially what has occurred and ATCO Gas's practice in 2015¹³² was consistent with the utility's approach to corporate finance, previously approved by the Commission.

156. The use of short-term credit facilities have been an accepted practice of utilities for capital funding purposes and issues related to these practices are addressed in GCOC proceedings. Indeed, as ATCO Gas has shown in this proceeding, its need for access to liquidity changes significantly throughout the year due to variations in weather, load balancing purchases, sales and other factors. The use of short-term credit facilities and changes in "cash" positions by ATCO Gas is required for capital funding of utility operations, and this issue is broader in nature than the specific issues to be addressed in a capital tracker true-up proceeding.

157. Consistent with the findings above, the Commission observes that in calculating its 2015 WACD, ATCO Gas is following the methodology consistent with its historical practices in previous Rule 005 filings.

158. With respect to the other issues raised by the CCA regarding the number of debt issues and the inclusion of credit facility charges in the capital tracker calculation, the Commission determines that these issues are part of the corporate finance practices of ATCO Gas, and are more properly reviewed in GCOC proceedings. As noted by ATCO Gas, currently the least expensive alternative would be to finance utility operations with 100 per cent short-term debt.¹³³ However, looking at capital market interest rates with the benefit of hindsight, and comparing against the corporate finance practices of ATCO Gas, is not best addressed in this proceeding without all debt and equity components being before the Commission. The Commission is also mindful that the CCA has commented previously on the unpredictable nature of capital markets. The issue of changes in capital markets should similarly be addressed in the GCOC.

159. Further, the Commission finds that the evidence provided by ATCO Gas in this proceeding regarding the seasonal variability in cash requirements¹³⁴ to be persuasive in that cash balances may be impacted by external events. ATCO Gas receives its revenue from ratepayers through a mix of fixed and variables charges. The variable charges are based on usage and are billed up to a month after the actual usage by the ratepayer occurred. ATCO Gas must however balance its system through the load balancing mechanism on a daily basis. This may involve a variable outlay of cash if the retailers on the ATCO Gas system purchase less gas on behalf of ratepayers than is actually being used in real-time. Additionally, ATCO Gas noted the recent weather deferral account Rider W collection as another factor which contributes to the need for

¹³² Exhibit 21843-X0076, ATCO Gas reply argument, paragraph 113.

¹³³ Exhibit 21843-X0076, ATCO Gas reply argument, paragraph 131.

¹³⁴ Exhibit 21843-X0059, ATCO Gas rebuttal evidence, paragraph 6.

access to cash. For these reasons, the Commission finds that the credit facility charges argument raised by the CCA does not support a change in the charges which are included in the capital tracker calculation of the K factor.

160. On this basis, the Commission is not persuaded by the CCA's evidence that there is a need to revisit the reasonableness of the company's debt practices for the purposes of this decision. The CCA has not provided compelling evidence that the actual cost of debt presented in the Rule 005 filing of ATCO Gas and used in the accounting test to calculate the K factor is unreasonable in assessing capital tracker true-up amounts for 2015.

161. The Commission finds ATCO Gas's 2015 actual embedded cost of debt of 5.60 per cent, from its 2015 Rule 005 filing, to be reasonable for the purposes of the second component of the accounting test. The CCA's recommendation for a pro-rata adjustment of interest on debt, based on the percentage of capital tracker capital to total capital spending, is denied.

8.4 Commission's conclusions on Criterion 1

162. In Section 7 of this decision, based on the project assessment under Criterion 1, the Commission approved the need, scope, level, timing, and the prudence of actual capital additions for each project or program that ATCO Gas included in the 2015 true-up. The Commission therefore determines that all of ATCO Gas's programs or projects included in the 2015 true-up satisfy the project assessment requirement of Criterion 1.

163. For the reasons included in Section 8 of this decision, the Commission finds that all of ATCO Gas's programs or projects included in the 2015 true-up satisfy the accounting test under Criterion 1. Therefore, the Commission finds that all of ATCO Gas's programs or projects included in the 2015 true-up satisfy the requirements of Criterion 1 for capital tracker treatment.

164. Similarly, for the reasons set out in sections 7.3 and 8.2 of this decision, dealing with projects assessment and accounting test, respectively, the Commission finds that the Alberta Floods program satisfies the requirements of Criterion 1 for capital tracker treatment on an actual capital expenditures basis in 2014.

9 Criterion 2 – ordinarily the project must be for replacement of existing capital assets or undertaking the project must be required by an external party

165. With respect to Criterion 2, the Commission clarified in Decision 2013-435 that, in addition to asset replacement projects and projects required by an external party, in principle, a growth-related project will satisfy the requirements of Criterion 2 where it can be demonstrated that customer contributions, together with incremental revenues allocated to the project on some reasonable basis, when added to the revenue provided under the I-X mechanism, are insufficient to offset the revenue requirement associated with the project in a PBR year.¹³⁵ Certain projects proposed for capital tracker treatment that do not fall into any of the growth-related, asset replacement or external party related categories might also satisfy Criterion 2 in certain circumstances, as discussed in Section 3.2.4 of Decision 2013-435.¹³⁶

¹³⁵ Decision 2013-435, paragraph 309.

¹³⁶ Decision 2013-435, paragraph 314.

166. As set out in Section 4 of this decision, for the purposes of the true-up of the 2015 capital tracker programs or projects for which the Commission undertook and approved the assessment against the Criterion 2 requirements in prior capital tracker decisions, there is no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program has changed. In the application, ATCO Gas confirmed that “none of the project or program drivers for previously approved trackers have changed” for the purposes of assessing Criterion 2.¹³⁷

167. In this application ATCO Gas noted that its new Alberta Floods program was required in 2014 and 2015 for the replacement of existing assets and therefore, it satisfies the Commission’s Criterion 2.¹³⁸

Commission findings

168. Consistent with the determinations in Section 4 of this decision, because the driver or drivers (e.g., replacement of existing assets, external party, growth) for each project or program included in ATCO Gas’s 2015 capital tracker true-up have not changed since the Commission undertook and approved proposed capital tracker projects and programs against the Criterion 2 requirements in prior capital tracker decisions, and most recently in Decision 3267-D01-2015, there is no need to undertake a reassessment of these programs or projects against the Criterion 2 requirements.

169. The Commission has reviewed the Alberta Floods program and agrees with ATCO Gas that costs were required to replace assets damaged or destroyed during the Alberta floods. Therefore, the Commission finds that this program meets the requirements of Criterion 2 for the years 2014 and 2015.

170. The Commission directs ATCO Gas, in subsequent capital tracker true-up applications, to address whether the driver for any of the previously approved forecast programs or projects, for which ATCO Gas is applying for true-up, has changed. In the event that the driver of the project or program has changed since the forecast project or program was approved, ATCO Gas is directed to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2, as previously directed at paragraph 639 of Decision 3267-D01-2015.

10 Criterion 3 – the project must have a material effect on the company’s finances

171. Section 7.1 of this decision addressed ATCO Gas’s accounting test, which determines whether all of the actual capital additions for a capital project are, or a portion is, outside the normal course of the company’s ongoing operations, as required to satisfy Criterion 1. This is established by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital additions for the program or project proposed for capital tracker treatment.

172. In accordance with the Commission’s determinations in Decision 2013-435, the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is

¹³⁷ Exhibit 21843-X0009, application, paragraph 133.

¹³⁸ Exhibit 21843-X0009, application, paragraph 54.

not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test, is then assessed against the two-tiered materiality test under Criterion 3. The first tier of the materiality threshold, a “four basis point threshold,” is applied at a project level, grouped in the manner approved by the Commission. The second tier of the materiality threshold, a “40 basis point threshold,” is applied to the aggregate revenue requirement proposed to be recovered by way of all capital trackers.¹³⁹

173. In Decision 2013-435, the Commission calculated the four basis point threshold and the 40 basis point threshold based on the dollar value of ATCO Gas’s ROE in 2012. The Commission indicated that in subsequent PBR years, the four basis point threshold and the 40 basis point threshold are to be calculated by escalating the respective 2012 amounts by I-X.¹⁴⁰

174. For the 2015 capital tracker true up, ATCO Gas used the 2015 four basis point threshold of \$0.149 million and \$0.122 million for north and south respectively and the 40 basis point threshold of \$1.49 million and \$1.22 million for the north and south respectively, previously approved in Decision 20385-D01-2015,¹⁴¹ calculated by escalating the respective 2012 amounts by the approved 2013, 2014 and 2015 I-X index values. ATCO Gas then assessed each of the capital tracker projects included in the 2015 true-up against the two-tiered materiality test, in accordance with the requirements set out in Decision 2013-435, and indicated that each project or program included in the 2015 capital tracker true-up satisfies Criterion 3.¹⁴²

175. For the 2014 K factor portion associated with the Alberta Floods costs, ATCO Gas also indicated it meets Criterion 3 requirements.¹⁴³

Commission findings

176. For its 2015 true-up calculations, ATCO Gas used the first and second tier materiality thresholds approved in Decision 20385-D01-2015, based on the approved 2013, 2014 and 2015 I-X index values. The Commission has reviewed ATCO Gas’s calculations, and is satisfied that ATCO Gas has interpreted and applied the Criterion 3 two-tiered materiality test properly for the purposes of its 2015 capital tracker true-up, based on the projects and assumptions included in the application. Accordingly, the Commission finds that all of ATCO Gas’s projects or programs included in the 2015 true-up satisfy the Criterion 3 materiality test requirements.

177. As well, the 2014 K factor portion of \$375,000 associated with the Alberta Floods costs exceeds the 2014 first-tier materiality threshold of \$0.121 million in the south approved in Decision 20604-D01-2016.¹⁴⁴ Furthermore, when this portion is added to the amounts approved for other programs or projects approved as part of the 2014 actual K factor in Decision 20604-D01-2016,¹⁴⁵ collectively, they exceed the second tier materiality threshold of \$1.21 million in the south approved in that decision.¹⁴⁶ Accordingly, the Commission finds that ATCO Gas’s Alberta floods program satisfies the Criterion 3 materiality threshold requirements based on the actual capital expenditures in 2014.

¹³⁹ Decision 2013-435, paragraphs 382-385.

¹⁴⁰ Decision 2013-435, paragraphs 378 and 384.

¹⁴¹ Decision 20385-D01-2015, paragraph 42.

¹⁴² Exhibit 21843-X0009, application, paragraph 112.

¹⁴³ Exhibit 21843-X0009, application, paragraph 55.

¹⁴⁴ Decision 20604-D01-2016, paragraphs 445 and 450.

¹⁴⁵ Decision 20604-D01-2016, paragraph 456.

¹⁴⁶ Decision 20604-D01-2016, paragraphs 445 and 450.

11 2017 SMR capital tracker forecast

11.1 Project assessment under Criterion 1

178. ATCO Gas’s SMR program, historically named the Urban Mains Replacement program, is an ongoing program that evaluates installed steel mains and identifies projects that have reached the end of their safe, operable lives and, as a result, require replacement.

179. As previously described in Section 7.2.1.1 of this decision, the overall objective of its SMR program is to ensure that the company can continue to provide safe and reliable distribution service. ATCO Gas explained that it evaluates its pipe systems on an annual basis and that the results of such evaluations are used to determine the frequency of leak inspections or, when appropriate, when to replace gas mains and service lines. ATCO Gas explained that it will continue to regularly monitor and analyze its 8,800 km of steel pipe on the existing steel system, identifying existing risks and potential trends that could impact the safety and reliability of the system.¹⁴⁷

180. In Decision 20604-D01-2016, the Commission approved the emergency repairs portion of the SMR forecast for 2017 but did not approve the remainder of the 2017 SMR program forecast because it was not associated with a defined set of projects, in accordance with the previously-approved forecast methodology.¹⁴⁸ In the current application, ATCO Gas submitted the SMR projects expected to be undertaken in 2017, including engineering assessments, and a new 2017 SMR forecast for Commission approval.¹⁴⁹ ATCO Gas provided a business case in support of its forecast projects for 2017.¹⁵⁰ Table 13 below provides a comparison of the capital additions forecast and the associated K factor amount as originally applied for in Proceeding 20604¹⁵¹ and the updated forecast and the associated K factor amount, as applied for in this application.

Table 13. 2017 applied-for and updated forecast and associated K factor amounts for the SMR program

	Applied-for capital expenditure forecast	Applied-for K factor	Updated capital expenditure forecast	Updated K factor
	(\$ million)			
North	28.1	12.2	16.9	0.8
South	11.4	3.2	10.9	0.5

181. ATCO Gas’s 2017 forecasts are compared to its actual and approved capital expenditures in the following table.

¹⁴⁷ Exhibit 21843-X0007, Appendix B, paragraphs 16, 25 and 48.

¹⁴⁸ Decision 20604-D01-2016, paragraphs 179 and 181.

¹⁴⁹ Exhibit 21843-X0009, application, paragraph 17 and Section 4.0.

¹⁵⁰ Exhibit 21843-X0007, Appendix B.

¹⁵¹ Proceeding 20604, Exhibit 20604-X0009, application, Table 7 and Exhibit 21843-X0009, application, Table 5.

Table 14. SMR historical expenditures

	2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	2016 approved*	2017 updated forecast
	(\$ million)						
North	26.5	20.3	20.1	18.1	28.6	27.3	17.0
South	17.7	8.8	4.7	5.3	10.0	11.0	10.9
Total	44.2	29.1	24.9	23.4	38.6	38.3	27.9

*2016 approved forecast filed in Proceeding 20604.
Source: Exhibit 21843-X0007, Appendix B, Table 7.

182. ATCO Gas provided information as to how the SMR program satisfies the project assessment test in Section 4.1.2 of the application.¹⁵² Details of the nature, scope and actual work undertaken in this program in 2015 were provided in Section 6.4.1 of the application.¹⁵³ The business case, engineering assessments, and new demerit point system, now referred to as the “SMR model,” further discussed later in this section, were included in Appendix B.¹⁵⁴ The need for this program, as part of the project assessment under capital tracker Criterion 1, was previously approved in decisions 3267-D01-2015¹⁵⁵ and 20604-D01-2016.¹⁵⁶

183. In Decision 3267-D01-2015, ATCO Gas was directed to reconsider the design of its demerit point system and to propose revisions to the demerit point system for the SMR program in the 2016 forecast capital tracker application. ATCO Gas did not provide the information in that application and, in Decision 20604-D01-2016, it was directed to provide the requested information in its 2015 capital tracker true-up application. In the current application, ATCO Gas provided its responses to the Commission directions regarding its SMR demerit point system. The three directions from Decision 20604-D01-2016 were:

168. ... Based on ATCO Gas’s response to a Commission IR, it is the Commission’s understanding that the new demerit point system will be completed prior to June 2016. As such, ATCO Gas is directed to provide details of the new demerit point system, including an example demerit point analysis from the 2017 projects, if such an example is available, at the time of ATCO Gas’s 2015 Capital Tracker true-up application. ATCO Gas is further directed to provide, as part of its 2015 true-up application, its proposed revisions to the demerit point system to account for the previous directions of the Commission in Decision 3267-D01-2015, which stated:

231. ... Accordingly, the Commission directs ATCO Gas to reconsider the design of its current demerit point system and to propose revisions to the demerit point system for consideration in its next capital tracker application, including providing suggestions for which factors should be eliminated from, or added to, the system and for changes to current weighting. ATCO Gas should provide reasons for all proposed changes to factors and weightings. ATCO Gas should also provide a timeline for the possible implementation of the revised demerit point system.

¹⁵² Exhibit 21843-X0009, application, Section 4.1.2.

¹⁵³ Exhibit 21843-X0009, application, Section 6.4.1.

¹⁵⁴ Exhibit 21843-X0007, Appendix B - SMR Business Case, Demerit Model, Engineering Assessments.

¹⁵⁵ Decision 3267-D01-2015, paragraph 195.

¹⁵⁶ Decision 20604-D01-2016, paragraph 177.

232. ... In its proposed revisions to the demerit point system, the Commission directs ATCO Gas to consider whether the leak frequency data should continue to be included in the demerit point system, in addition to considering it separately when completing an engineering assessment. If it prefers to continue to include the leak frequency data in the demerit point system, ATCO Gas shall provide a full explanation as to its reasons.¹⁹¹

...

171. ... Accordingly, ATCO Gas is directed to provide, for each project included in its future SMR business cases, the total number of leaks for each of the two-year and 10-year time periods, as well as the number of leaks on a per 100 km basis, for each of the two-year and 10-year time periods.

172. ... As such, ATCO Gas is directed to provide a summary table with information on leak frequencies across its entire system as a part of the SMR business case in its next Capital Tracker application.¹⁵⁷

¹⁹¹ Decision 3267-D01-2015, paragraphs 231-232.

184. ATCO Gas noted that its SMR model in Appendix B2¹⁵⁸ is intended to be a tool that provides evidence to help identify areas that require further investigation and also demonstrates the reasonableness of proposed SMR projects. A number of factors are considered within the SMR model. These factors were chosen based on the availability of information, subjectivity of the factor, and potential for automation. The following factors were listed in the model:¹⁵⁹

Impact	Probability
Ability to repair (category) <ul style="list-style-type: none"> ▪ size of pipe (factor) ▪ security of supply ▪ irregular pipe material 	Operational history <ul style="list-style-type: none"> ▪ cathodic protection ▪ history of leaks ▪ leak trend
Gas migration <ul style="list-style-type: none"> ▪ ground cover ▪ leak classification ▪ building type 	Pipe and fitting attributes <ul style="list-style-type: none"> ▪ bare steel ▪ steel tubing services ▪ dresser couplings ▪ fitting density
	External/environmental factors <ul style="list-style-type: none"> ▪ third-party construction activity

185. ATCO Gas further noted that it created a scoring system in order to objectively define and evaluate each factor. Each of the factors were weighted given that the factors are not equally significant.¹⁶⁰ ATCO Gas provided its supporting rationale for each of its factor scores in Appendix B2.¹⁶¹

¹⁵⁷ Decision 20604-D01-2016, paragraphs 168 and 171-172.

¹⁵⁸ Exhibit 21843-X0007, Appendix B2.

¹⁵⁹ Exhibit 21843-X0007, Appendix B2, paragraphs 2-4.

¹⁶⁰ Exhibit 21843-X0007, Appendix B2, paragraphs 6-8.

¹⁶¹ Exhibit 21843-X0007, Appendix B2, Table 1-2.

186. ATCO Gas proposed a technical workshop to aid the Commission and other interested parties in understanding its new SMR model and the 2017 SMR engineering assessments,¹⁶² which occurred on August 24, 2016. On September 2, 2016, ATCO Gas filed the presentation given at the technical workshop and its answers to questions asked at the technical workshop on the record of this proceeding.¹⁶³

187. In its argument, the CCA outlined a number of concerns with the 2017 SMR forecasts compared to historical actuals and the 2017 SMR methodology, which includes the new SMR model. These concerns included:

- The engineering assessments cannot be challenged due to their subjectivity.
- Integrity assessments have not been provided.
- The assessments provided do not adequately distinguish the severity of various leaks, and independent leak standards should be used in support of future applications.
- Annual surveys were only completed for the two years preceding the inclusion in the business cases with multiyear gaps in preceding years for many of the projects forecast to be replaced in 2017.
- The 10-year leak trend is meaningless where no leak surveys are performed in the 10-year period or gaps occur.
- There is an inadequate comparison of replacement of entire systems given the alternative of adequate monitoring and repair.
- Engineering assessments are not authenticated by the Association of Professional Engineers and Geoscientists of Alberta (APEGA).
- Similar pipe is being converted as part of the Urban Pipelines Replacement project to what is considered unsafe under SMR.
- There has not been an adequate assessment of steel pipe compared to polyethylene pipe.
- There are arbitrary categories within the SMR model that allow for a subjective weighting system.
- ATCO Gas has not filed complete corrosion inspection records in compliance with CSA Z662 standards.¹⁶⁴

188. Based on the above concerns, the CCA recommended that capital tracker funding for the SMR program be rejected for 2017 on a forecast basis.¹⁶⁵

189. In its argument, ATCO Gas stated that the need for the SMR program has been established in previous proceedings and that in the current proceeding there is a lack of intervenor evidence to challenge that the need for the SMR project no longer applies. However, ATCO Gas indicated that it does not take issue with challenges to prudence of actuals incurred in the 2015 SMR program or the testing of the reasonableness of forecasts for 2017. ATCO Gas explained that its forecast is not based on previous years' experience, but is based on a reactive, risk-based replacement program. The SMR model included the existing drivers and factors but it also incorporated "some of the factors that were always considered in the engineering assessment

¹⁶² Exhibit 21843-X0009, application, PDF page 1.

¹⁶³ Exhibit 21843-X0022, Technical Workshop Presentation and Questions Summary.

¹⁶⁴ Exhibit 21843-X0072, CCA argument, paragraphs 13-87.

¹⁶⁵ Exhibit 21843-X0072, CCA argument, paragraphs 85.

into a numerical value in order to reflect ATCO Gas's prioritization and engineering judgement."¹⁶⁶

190. ATCO Gas asserted that the CCA's argument that there is a tendency to over-forecast costs is incorrect and unsupported as, for example, actual capital tracker expenditures for 2015 were higher than forecast. ATCO Gas's reply argument included its responses to the other points made by the CCA:

- Integrity assessments will be provided beginning in the 2016 true-up application.
- ATCO Gas's leak definitions are nearly identical to the definitions used by the American Society of Mechanical Engineers.
- Areas identified by the leak density tool which meet the criteria for SMR consideration are surveyed for leaks annually.
- Leaks are not the only component of the engineering assessment.
- The 10-year and two-year leak histories are used as separate factors and not compared to each other.
- Ongoing leak monitoring and repair are mitigation measures that have been exhausted prior to a recommendation for replacement.
- Ongoing leak monitoring and repair does not mitigate the risk of more leaks occurring.
- APEGA did not establish the AUC's capital tracker criteria nor does it regulate the process by which such regulatory applications are reviewed.
- ATCO Gas has never predicated replacement decisions for any pipe solely upon its vintage, the problem with brittle failure of the early generation PVC and PE pipe has not been experienced by the current generation pipe.
- The new SMR model is an objective tool which does capture ATCO Gas's most common and measurable factors ascribing a numerical value to reflect ATCO Gas's prioritization and engineering judgment.¹⁶⁷

Commission findings

191. The Commission has considered the information provided by ATCO Gas and finds that ATCO Gas has complied with the directions at paragraphs 168, 171, and 172 of Decision 20604-D01-2016. The Commission considers the additional information provided by ATCO Gas, including its new SMR model included in Appendix B to the application, to be of assistance in the assessment of the SMR program.

192. In Decision 20604-D01-2016, the Commission approved the need for the SMR program on an actual basis in 2014 and on a forecast basis for purposes of capital tracker treatment in 2016. Further, the Commission determined that the proposed scope, level, timing and the resulting costs for this program were reasonable for those two years. As noted in Section 3, where a project or program is part of an ongoing multi-year program, or if a project or program is of an annual recurring nature for which the need has been previously approved by the Commission for purposes of capital tracker treatment, in the absence of evidence that the project or program is no longer required, the Commission will not undertake a reassessment of need under Criterion 1.

¹⁶⁶ Exhibit 21843-X0071, ATCO Gas argument, paragraph 25.

¹⁶⁷ Exhibit 21843-X0076, ATCO Gas reply argument, paragraphs 20-97.

193. As noted earlier in this section, in Decision 20604-D01-2016, the Commission approved only the emergency repairs portion of the SMR forecast for 2017, because the remainder of the 2017 SMR program forecast was not associated with a defined set of projects, as was required under the previously approved forecast methodology.¹⁶⁸ However, the Commission is aware that the introduction of the SMR model constitutes a change in forecast methodology for the SMR program. Accordingly, the proposed updated scope, level, timing and forecast costs of the SMR program in 2017 must be reassessed as part of the project assessment requirement of capital tracker Criterion 1.

194. Many of the CCA's concerns with the SMR program have been raised by the CCA in past general rate applications and PBR applications that have addressed the SMR program or the former Urban Mains Replacement program. In response to issues raised by interveners regarding the Urban Mains Replacement program (the precursor to the SMR program) in Decision 2011-450, the Commission recommended:

133. ... that AG monitor industry research and experience with coated, cathodically protected pipe. Should industry experience and AG specific leak frequency begin to rise despite the use of the existing demerit point and related systems and inspections, then the Commission would be prepared to reexamine the need for a modified approach to urban steel main replacements.¹⁶⁹

195. In Decision 3267-D01-2015, the Commission directed ATCO Gas to reconsider and propose revisions to its demerit point system.¹⁷⁰ In Decision 20604-D01-2016, the Commission directed ATCO Gas to provide additional information related to the SMR program as part of its future regulatory applications.¹⁷¹ ATCO Gas has complied with the Commission's directions and the Commission is satisfied that all parties have ample information upon which to assess the merits of the SMR program. The Commission does not consider that additional directions in this decision related to ATCO Gas's leak classification system, two-year and 10-year leak information, replacement options compared to repair options for SMR pipe replacement, an assessment of steel pipe compared to polyethylene pipe, and compliance with CSA Z662 records management, are required at this time.

196. In evaluating the CCA's concerns raised in argument, the Commission considers that while there should be continual improvement in the SMR forecast methodology and SMR model, the new SMR model is a significant improvement over the previous demerit point system, given the additional information that is now included and the updates to reflect current thinking and issues with respect to ATCO Gas's system.

197. In addition, the new demerit point model takes into consideration a number of factors that were not previously quantified within the demerit point system, but rather assessed within the engineering assessment in a more qualitative manner, which weighs in favour of the improvement of the new SMR model over the previously-approved demerit point system in identifying SMR projects.

¹⁶⁸ Decision 20604-D01-2016, paragraphs 179 and 181.

¹⁶⁹ Decision 2011-450, paragraph 133.

¹⁷⁰ Decision 3267-D01-2015, paragraph 231.

¹⁷¹ Decision 20604-D01-2016, paragraph 170.

198. The Commission disagrees with the CCA that an independent assessment by a third-party engineering firm is warranted at this time because ATCO Gas has provided information on the engineering judgement currently undertaken in the assessment of the projects included in the SMR program to be completed in 2017. ATCO Gas will be providing integrity assessments in future applications, commencing in its 2016 capital tracker true-up application.

199. As a final point, Decision 20414-D01-2016 (Errata)¹⁷² set out the parameters of the 2018-2022 PBR plans for distribution utilities, including ATCO Gas, and discontinued the existing capital tracker mechanism in its current form. The Commission determined that capital will be divided into two categories. Type 1 capital will be governed under a modified capital tracker mechanism. Type 2 capital will be governed under a K-bar mechanism that provides a set amount of capital funding for each year of the 2018-2022 PBR term. As a result, the Commission expects that from 2018 to 2022, ATCO Gas will be required to manage its capital requirements and capital costs, including those associated with the SMR program, without the Commission's annual review and scrutiny of forecasts. Therefore, the Commission will not be immediately directing any further improvements to the SMR model, because this model is one of the ways that the SMR program and individual projects comprising it can be evaluated.

200. In light of its acceptance of ATCO Gas's new SMR model on which the updated forecast for this program is based, and based on its review of the business case and the relevant portions of the record, the Commission finds the forecast scope, level and timing of the SMR program for 2017 to be reasonable. Accordingly, the Commission finds that the SMR program satisfies the project assessment requirement of Criterion 1 on a forecast basis for 2017.

11.2 Assessment against the remaining capital tracker criteria

201. ATCO Gas performed the accounting test for the SMR program reflecting the updated capital expenditures forecast for 2017 totalling \$27.9 million. The resulting portion of the program's 2017 forecast revenue requirement not funded under I-X amounted to \$839,000 in the north and \$491,000 in the south.¹⁷³ ATCO Gas indicated that this capital funding shortfall exceeds the materiality threshold and therefore satisfies the materiality test under Criterion 3.¹⁷⁴

202. ATCO Gas stated that given that the SMR program is required for the replacement of assets, it continues to satisfy Criterion 2. ATCO Gas pointed out that in Decision 20604-D01-2016, the Commission found that this capital program satisfies Criterion 2 and indicated that circumstances have not changed for this capital program in terms of complying with this criterion.¹⁷⁵

Commission findings

203. The Commission finds the results of ATCO Gas's accounting test for the SMR program reflecting the updated forecast for 2017 to be reasonable and consistent with the accounting test

¹⁷² Decision 20414-D01-2016 (Errata): 2018-2022, Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Proceeding 20414, February 6, 2017.

¹⁷³ Exhibit 21843-X0009, application, paragraph 82 and Exhibit 21843-X0001, application, Schedule A10 of Appendix A.

¹⁷⁴ Exhibit 21843-X0009, application, paragraph 83.

¹⁷⁵ Exhibit 21843-X0009, application, paragraph 82.

assumptions for 2017 K factor forecast approved in Decision 21606-D01-2016.¹⁷⁶ Therefore, the Commission finds that the SMR program satisfies the accounting test under Criterion 1 on an updated forecast basis in 2017.

204. However the Commission finds that the new forecast methodology has not changed the fact that this program is required for the replacement of assets. Consistent with the determinations made in decisions 3267-D01-2015 and 20604-D01-2016, the Commission finds that the SMR program continues to satisfy Criterion 2.

205. Although ATCO Gas has not provided the calculation for its 2017 materiality threshold in this application, in Decision 21606-D01-2016, the Commission approved the 2017 first-tier materiality threshold of \$153,000 in the north and \$125,000 in the south.¹⁷⁷ The Commission observes that the portions of the program's revenue requirement not funded under I-X arising from the accounting test reflecting the updated 2017 SMR forecast amounts applied-for by ATCO Gas in this proceeding are in excess of the 2017 first tier materiality thresholds approved in Decision 21606-D01-2016. Furthermore, when these portions are added to the amounts approved for other programs or projects approved as part of the 2017 forecast K factor in Decision 21606-D01-2016, collectively, they exceed the second tier materiality threshold of \$1.53 million in the north and \$1.25 million in the south approved in that decision. Accordingly, the Commission finds that ATCO Gas's SMR program satisfies the Criterion 3 materiality threshold requirements on an updated forecast basis in 2017.

12 ATCO Gas's compliance with Commission directions

206. In decisions 3267-D01-2015 and 20604-D01-2016, the Commission issued a number of directions to ATCO Gas that were applicable to its future capital tracker applications. ATCO Gas's responses to the Commission directions were provided in Section 2.0 of its application.¹⁷⁸ No party challenged ATCO Gas's compliance with Commission directions.

Commission findings

207. In previous sections of this decision, the Commission addressed ATCO Gas's compliance with certain directions from decisions 3267-D01-2015 and 20604-D01-2016.

208. The Commission has reviewed ATCO Gas's responses to the remaining directions of the Commission not specifically addressed previously in this decision and is satisfied that ATCO Gas has complied with the directions from decisions 3267-D01-2015 and 20604-D01-2016 in the current application.

209. In the 2016 and 2017 true-up capital tracker applications, ATCO Gas is directed to continue to provide similar information to that provided in its 2014 and 2015 true-up capital tracker applications with respect to each of the minimum filing requirements, including updated business cases, engineering studies and cost-related information, actual costs by cost category and unit costs, in sufficient detail to allow an evaluation of the prudence of its incurred costs.

¹⁷⁶ Decision 21606-D01-2016: ATCO Gas and Pipelines Ltd., 2014 True-Up and 2016-2017 Forecast PBR Capital Trackers Compliance Filing, Proceeding 21606, August 25, 2016.

¹⁷⁷ Decision 21606-D01-2016, paragraph 79. Proceeding 21606, Exhibit 21606-X0004, Table 10.

¹⁷⁸ Exhibit 21843-X0009, application, paragraphs 18-33.

ATCO Gas is further directed to file its capital tracker business cases and updates, as filed in proceedings 3267 and 20604, for the programs and projects for which ATCO Gas is applying for true-up in its 2016 and 2017 capital tracker true-up applications.

13 2015 K factor true-up calculations

210. In Decision 20385-D01-2015, the Commission approved the 2015 forecast K factors of \$21.0 million and \$11.4 million to be recovered from ATCO Gas's customers in the north and south, respectively, on an interim basis.¹⁷⁹ As part of the 2015 capital tracker true-up, ATCO Gas calculated its actual 2015 K factors to be \$18.1 million and \$9.6 million in the north and south,¹⁸⁰ resulting in a proposed 2015 K factor true-up adjustment of \$2.9 million and \$1.8 million to be refunded to customers in the north and south respectively, as shown in Table 1 from Section 5 of this decision.

211. In its argument, the UCA pointed to the fact that ATCO Gas's 2015 approved forecast K factor amount exceeded the K factor true-up amount in 2015. Citing previous Commission decisions for FortisAlberta Inc. and EPCOR Distribution & Transmission Inc., the UCA recommended that the amounts refunded to ATCO Gas customers should include carrying costs calculated using the Rule 023: *Rules Respecting the Payment of Interest*. The UCA stated that the K factor true-up adjustments in ATCO Gas's application appear to meet the criteria established under Rule 023 with respect to carrying costs.¹⁸¹

212. ATCO Gas responded that there was no request for carrying costs in its application and the issue of carrying costs should be addressed during the compliance process when the actual refund amounts are known.

Commission findings

213. In Section 7 of this decision, the Commission confirmed the prudence of actual capital expenditures associated with ATCO Gas's projects or programs included in the 2015 capital tracker true-up. In sections 8, 9, and 10, the Commission concluded that all of ATCO Gas's programs or projects included in the 2015 capital tracker true-up satisfy the requirements of the remaining capital tracker criteria. Accordingly, the Commission approves the 2015 K factor true-up refund of \$2.9 million and \$1.8 million in the north and south, respectively.

214. In order to implement the findings in this decision and as there is no requirement for a compliance application to this decision, the Commission directs ATCO Gas to include in its 2018 PBR rates application the portion of the 2014 K factor amount associated with the Alberta Floods program and the entire 2015 K factor true-up refund amounts approved in this decision, as well as the \$0.8 million and \$0.5 million portions of the 2017 forecast K factor amounts, in the north and south, respectively, arising from the approval of the 2017 updated SMR forecast.

215. Regarding the UCA's request for ATCO Gas to apply carrying charges to its 2015 K factor true-up refund amounts, the K factor amounts arising from this decision will be included in customer rates in the 2018 PBR rates application pursuant to the findings in this decision. The

¹⁷⁹ Decision 20385-D01-2015, Table 2.

¹⁸⁰ Exhibit 21843-X0009, application, Table 2.

¹⁸¹ Exhibit 21843-X0074, UCA reply argument, paragraph 4, citing Section 2(a) of Rule 023.

final amount of carrying charges that would apply to the K factor refund has not been provided on the record, and there is limited argument and reply argument to address this issue. Therefore, the Commission will deal with the issue of whether carrying charges should be applied to ATCO Gas's 2015 K factor true-up amounts as part of the 2018 PBR rates application.

14 Order

216. It is hereby ordered that:

- (1) The ATCO Gas and Pipelines Ltd.'s 2015 actual K factor of \$18.1 million and \$9.6 million for the north and south, respectively, are approved. The 2017 Steel Mains Replacement updated forecast K factor of \$0.8 million and \$0.5 million for the north and south territories, respectively, are approved as filed. The portion of the 2014 actual K factor of \$0.375 million associated with the Alberta Floods program is also approved.
- (2) The following amounts are approved and shall be included as part of a proceeding to establish ATCO Gas and Pipelines Ltd.'s 2018 performance-based regulation rates:
 - The portion of the 2014 K factor amount associated with the Alberta Floods program of \$0.375 million in the ATCO Gas south territory.
 - The 2015 K factor adjustment refund amounts of \$2.9 million in the ATCO Gas north territory and \$1.8 million in the ATCO Gas south territory.
 - The \$0.8 million and \$0.5 million portions of the 2017 forecast K factor amounts, in the north and south territories, respectively, resulting from 2017 updated SMR forecast approved in this decision.

Dated on June 12, 2017.

Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Anne Michaud
Commission Member

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
ATCO Gas and Pipelines Ltd. (ATCO Gas or AG)
Consumers Coalition Of Alberta (CCA)
Office Of The Utilities Consumer Advocate (UCA) Brownlee LLP

Alberta Utilities Commission
Commission panel
M. Kolesar, Vice-Chair
A. Michaud, Commission Member
N. Jamieson, Commission Member
Commission staff
A. Sabo (Commission counsel)
B. Whyte
P. Genderka
N. Mahbub
C. Runge
D. Ryan

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. Based on the above determinations, the Commission approves the 2015 K factor true-up refund of \$2.9 million and \$1.8 million in the north and south, respectively. The Commission also approves the portions of the 2017 forecast K factor amounts of \$0.8 million and \$0.5 million in the north and south, respectively, arising from the approval of the 2017 updated SMR forecast. The portion of the 2014 K factor amount associated with the Alberta Floods program of \$0.375 million in the south is also approved. The Commission directs ATCO Gas to include these amounts in its 2018 performance-based regulation (PBR) rates application. Paragraph 2
2. The Commission finds that ATCO Gas has complied with the direction set out at paragraph 75 of Decision 20604-D01-2016 and directs ATCO Gas to continue to confirm that these policies and procedures remain in place and to advise of modifications to its management policies and procedures in future capital tracker applications and general rates applications. If there are changes to management policies and procedures, a full copy of the amended policies and procedures must be filed with the Commission. Paragraph 51
3. The Commission directs ATCO Gas, in subsequent capital tracker true-up applications, to address whether the driver for any of the previously approved forecast programs or projects, for which ATCO Gas is applying for true-up, has changed. In the event that the driver of the project or program has changed since the forecast project or program was approved, ATCO Gas is directed to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2, as previously directed at paragraph 639 of Decision 3267-D01-2015. Paragraph 170
4. In the 2016 and 2017 true-up capital tracker applications, ATCO Gas is directed to continue to provide similar information to that provided in its 2014 and 2015 true-up capital tracker applications with respect to each of the minimum filing requirements, including updated business cases, engineering studies and cost-related information, including actual costs by cost category and unit costs, in sufficient detail to allow an evaluation of the prudence of its incurred costs. ATCO Gas is further directed to file its capital tracker business cases and updates, as filed in proceedings 3267 and 20604, for the programs and projects for which ATCO Gas is applying for true-up in its 2016 and 2017 capital tracker true-up applications. Paragraph 209
5. In order to implement the findings in this decision and as there is no requirement for a compliance application to this decision, the Commission directs ATCO Gas to include in its 2018 PBR rates application the portion of the 2014 K factor amount associated with the Alberta Floods program and the entire 2015 K factor true-up refund amounts approved in this decision, as well as the \$0.8 million and \$0.5 million portions of the 2017 forecast K factor amounts, in the north and south, respectively, arising from the approval of the 2017 updated SMR forecast. Paragraph 214

Appendix 3 – ATCO Gas’s prior capital tracker-related decisions

[\(return to text\)](#)

Commission approvals and directions	Decision	Decision/proceeding reference
<p>The Commission approved a 2013 K factor placeholder amount of \$5.71 million, which is equal to 60 per cent of the K factor amount applied-for in ATCO Gas’s capital tracker application in Proceeding 2131.¹ In the application, ATCO Gas applied for a 2013 K factor amount of \$9.5 million.</p>	<p>Decision 2013-072²</p>	<p>Paragraph 41</p>
<p>The Commission approved, on an interim basis, ATCO Gas’s 2013 PBR rates which included the 2013 K factor placeholder amount approved in Decision 2013-072.</p>	<p>Decision 2013-270³</p>	<p>Paragraph 60</p>
<p>The Commission approved, on an interim basis, ATCO Gas’s 2014 PBR rates which included a 2014 K factor placeholder amount of \$13.2 million, which is equal to 60 per cent of the K factor amount calculated by ATCO Gas in its 2014 annual PBR rate adjustment filing application. In the application, ATCO Gas calculated a 2014 K factor amount of \$22.0 million.</p>	<p>Decision 2013-460⁴</p>	<p>Paragraph 77</p>
<p>The Commission approved ATCO Gas’s interim rates which included a collection amount of \$8.5 million, which was the difference between 90 per cent of the 2013 K factor amount applied-for by ATCO Gas in Proceeding 3267,⁵ in the amount of \$15.1 million, and the K factor placeholder amount of \$5.7 million, approved in Decision 2013-270.</p> <p>The Commission also approved a collection amount of \$10.0 million, which was the difference between 90 per cent of the 2014 K factor amount applied-for by ATCO Gas in Proceeding 3267, in the amount of \$24.3 million, and the K factor placeholder amount of \$13.2 million, approved in Decision 2013-460.</p>	<p>Decision 2014-296⁶</p>	<p>Paragraph 32</p>

¹ Proceeding 2131, 2012 PBR Capital Tracker Filings.

² Decision 2013-072: 2012 Performance-Based Regulation Compliance Filings, AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Proceeding 2130, Application 1608826-1, March 4, 2013.

³ Decision 2013-270: 2012 Performance-Based Regulation Second Compliance Filings, AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Proceeding 2477, Application 1609367-1, July 19, 2013.

⁴ Decision 2013-460: ATCO Gas and Pipelines Ltd., 2014 Annual PBR Rate Adjustment Filing, Proceeding 2826, Application 1609915-1, December 19, 2013.

⁵ Proceeding 3267, ATCO Gas 2013 PBR Capital Tracker Refiling and True-up and 2014-2015 PBR Capital Tracker Forecast.

⁶ Decision 2014-296: ATCO Gas and Pipelines Ltd., 2014 Interim Rates, Proceeding 3282, Application 1610653-1, October 24, 2014.

Commission approvals and directions	Decision	Decision/proceeding reference
The Commission approved, on an interim basis, ATCO Gas's 2015 PBR rates which included a 2015 K factor placeholder amount of \$35.0 million, which is equal to 90 per cent of the K factor amount applied-for in ATCO Gas's capital tracker application in Proceeding 3267. In the application, ATCO Gas applied for a 2015 K factor amount of \$38.9 million.	Decision 2014-363 ⁷	Paragraph 50
The Commission approved, on a final basis, the 2013 K factor of \$9.6 million, and on an forecast basis, the 2014 and 2015 K factors of \$19.0 million and \$32.4 million, respectively, and directed ATCO Gas to refund \$9.4 million of the previously collected K factor amounts to customers over the period of September 2015 to December 2015.	Decision 20385-D01-2015 ⁸	Paragraph 44
The Commission approved, on an interim basis, ATCO Gas's 2016 PBR rates which included a 2016 K factor placeholder amount of \$42.7 million, which is equal to 90 per cent of the K factor amount applied-for in ATCO Gas's capital tracker application in Proceeding 20604. In the application, ATCO Gas applied for a 2016 K factor amount of \$47.4 million.	Decision 20820-D01-2015 ⁹	Paragraph 59
The Commission approved the actual 2014 K factor in the amount of \$17.3 million.	Decision 20604-D01-2016 ¹⁰	Paragraph 456
The Commission approved on a forecast basis, the 2016 and 2017 K factors of \$47.0 million and \$61.1 million, respectively.	Decision 21606-D01-2016 ¹¹	Paragraph 86
In this proceeding (21843), ATCO Gas applied for an actual 2015 K factor in the amount of \$27.7 million.		Exhibit 21805-X0009, paragraph 13, Table 2
The Commission approved, on an interim basis, ATCO Gas's 2017 PBR rates which collected 100 per cent of the forecast 2017 K factor amount of \$61.1 million.	Decision 21981-D01-2016 ¹²	Paragraph 51

⁷ Decision 2014-363: ATCO Gas, 2015 Annual PBR Rate Adjustment Filing, Proceeding 3407, Application 1610837-1, December 19, 2014.

⁸ Decision 20385-D01-2015: ATCO Gas, 2013 PBR Capital Tracker Refiling and True-Up and 2014-2015 PBR Capital Tracker Forecast Compliance Application, Proceeding 20385, August 24, 2015.

⁹ Decision 20820-D01-2015: ATCO Gas and Pipelines Ltd., 2016 Annual Performance-Based Regulation Rate Adjustment Filing, Proceeding 20820, December 21, 2015.

¹⁰ Decision 20604-D01-2016: ATCO Gas and Pipelines Ltd., 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 20604, April 14, 2016.

¹¹ Decision 21606-D01-2016: ATCO Gas and Pipelines Ltd., 2014 True-Up and 2016-2017 Forecast PBR Capital Trackers Compliance Filing, Proceeding 21606, August 25, 2016.

¹² Decision 21981-D01-2016: ATCO Gas, a division of ATCO Gas and Pipelines Ltd., 2017 Annual Performance-Based Regulation Rate Adjustment Filing, Proceeding 21981, December 21, 2016