Decision **22011-D01-2017**

Alberta Utilities Commission

ATCO Pipelines

2017-2018 General Rate Application

August 29, 2017

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Alberta Utilities Commission
Calgary, Alberta

ATCO Pipelines **Decision 22011-D01-2017**
2017-2018 General Rate Application **Proceeding 22011**

1 Introduction

1. On September 22, 2016, ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., filed an application with the Alberta Utilities Commission requesting approval of its 2017-2018 general rate application (GRA). ATCO Pipelines is requesting approval from the Commission for its forecast revenue requirement of $273,331,000 for 2017 and $295,093,000 for 2018.[1] The revenue requirement approved by the Commission will be collected from NOVA Gas Transmission Ltd. (NGTL), as per the terms of integration between the two systems. ATCO Pipelines is also seeking the Commission's approval of ATCO Pipelines':

- forecast opening balances for plant, property and equipment, as at January 1, 2017
- continued use of deferrals and placeholders
- proposed depreciation rate changes
- proposed settlement of certain regulatory deferral accounts

2. ATCO Pipelines explained that the changes to its revenue requirements compared to the previous test period resulted from:

(1) An increase in rate base driven mainly by the Urban Replacement Program (UPR) along with the Inland Loop and Pembina Expansion projects (NGTL directed growth projects).

(2) Changes to ATCO Pipelines' depreciation rates as a result of the recent full depreciation study – the most significant change being in net salvage rates.

(3) A move to the equal life group (ELG) method from the broad group (BG) method for depreciation reserve calculations.

(4) An increase in forecast operations and maintenance (O&M) attributed to inflation, measurement verification, regulatory compliance, cyber security initiatives and asset swap impacts.[2]

Process

3. The Commission issued notice of the application on September 23, 2016. In response to the notice, statements of intent to participate were filed by the following parties:

- The Office of the Utilities Consumer Advocate (UCA)
- The City of Calgary
- NGTL

[1] Revenue requirements from Exhibit 22011-X0047, AP-AUC-2016NOV18-003(a) Attachment, Schedule 4.1-1, PDF page 50.
[2] Exhibit 22011-X0005, application, PDF pages 5-7.

- Canadian Association of Petroleum Producers (CAPP)
- Consumers' Coalition of Alberta (CCA)
- Encana Corporation
- Western Export Group (WEG)

4. In a letter dated October 12, 2016, the Commission set the process schedule for consideration of the application and directed ATCO Pipelines to file additional information regarding the deficient radiographic inspections of prefabricated welds outlined in a self-disclosure letter in the application. On October 25, 2016, ATCO Pipelines filed all information on radiographic inspections of prefabricated welds as directed.

5. On November 1, 2016, the UCA filed a submission with the Commission requesting an extension to the filing of information requests (IRs) from November 8, 2016 to November 18, 2016. The UCA explained that it required the extension due to unavoidable delays in retaining experts due to the requirement to adhere to government of Alberta procurement practices. The UCA stated that without the extension, it could not participate fully in the proceeding.

6. On November 2, 2016, the Commission approved the UCA's requested extension, and revised the schedule as follows:

Process step	Deadline	Revised deadline*
IRs to ATCO Pipelines	November 8, 2016	November 18, 2016
Information responses from ATCO Pipelines	November 24, 2016	December 2, 2016
Submissions on need for an oral hearing	November 30, 2016	December 8, 2016
Intervener evidence	December 9, 2016	December 20, 2016
IRs to interveners	December 20, 2016	January 10, 2017
Information responses from interveners	January 6, 2017	January 25, 2017
Rebuttal evidence	January 17, 2017	February 6, 2017
Argument	February 7, 2017	February 27, 2017
Reply argument	February 28, 2017	March 14, 2017

7. On November 3, 2016, ATCO Pipelines filed a letter with the Commission requesting adjustments to the revised schedule established by the Commission in its November 2, 2016 letter. ATCO Pipelines asserted that while the extension was requested due to the UCA's delay in retaining one expert, no effort was made to limit the extension request to a specific issue, which would have allowed for the bulk of the IRs to be answered in the original timeframe. ATCO Pipelines proposed that the UCA identify the issue that its expert requires more time to prepare IRs for, and for the Commission to allow more time for only these specific IRs while maintaining the original schedule for all other IRs. ATCO Pipelines submitted that its proposal would maintain the original process schedule, set on October 12, 2016, while also accommodating the UCA's request.

8. In a letter dated November 4, 2016, Calgary submitted that there is no need to revise the process schedule set out by the Commission's November 2, 2016 letter. Calgary indicated that ATCO Pipelines' proposed schedule is irregular and would create more clutter on the record by way of separate IR response filings. Calgary also maintained that the argument of regulatory lag was questionable as there may well be an oral hearing, which would add time to the process schedule.

9. By way of a letter dated November 4, 2016, the CCA submitted that it supported the UCA request for a time extension to IRs, and was in agreement with the revised deadline for IR filing of November 18, 2016, as set out by the Commission's letter filed November 2, 2016.

10. On November 4, 2016, the Commission issued a letter denying ATCO Pipelines' request to amend the process schedule. The Commission considered that the process schedule set in its November 2, 2016 correspondence was not unfairly prejudicial to any party and that the proposal to separate IR response filings was inefficient.

11. In accordance with the November 2, 2016 process schedule, IRs were filed on November 18, 2016.

12. On November 25, 2016, ATCO Pipelines' filed a motion pursuant to Section 13 of Rule 001: *Rules of Practice*, requesting confidential treatment for its IR response to AP-UCA-2016NOV18-034(d) which pertained to bid information and construction agreements related to the UPR project. In the motion, ATCO Pipelines requested that Section 13.6 of Rule 001 requiring ATCO Pipelines to provide the subject information of the confidentiality motion, be waived in consideration of how similar information was treated in its 2015-2016 GRA.

13. On November 29, 2016, the Commission issued a letter establishing a process to address the motion. The Commission also denied ATCO Pipelines' request to waive Section 13.6 of Rule 001 and directed ATCO Pipelines to file either the non-confidential version or the non-confidential description of the document provided in accordance with Section 13.4(c).[3]

14. On December 5, 2016, the Commission received submissions on the motion for confidential treatment and further process for the proceeding from the CCA and the UCA. In a December 7, 2016 letter, ATCO Pipelines responded to intervener submissions.

15. On December 15, 2016, the Commission granted ATCO Pipelines' confidentiality motion and directed ATCO Pipelines to file all documents in response to AP-UCA-2016NOV18-034(d) on the confidential record only. On December 2, 2016, ATCO Pipelines filed responses to IRs from interveners and the Alberta Utilities Commission. On December 21, 2016, ATCO Pipelines submitted the confidential documents to parties which had executed a confidentiality undertaking.

16. On December 12, 2016 and December 13, 2016, the UCA and Calgary respectively, submitted motions to the Commission pursuant to Section 9 of Rule 001 and Section 8 of the *Alberta Utilities Commission Act*, for orders that ATCO Pipelines be directed to provide full and complete responses to the IRs of the UCA and Calgary.

17. In a letter dated December 14, 2016, the Commission established a schedule to process the motions filed by the UCA and Calgary. In accordance with the schedule, ATCO Pipelines submitted its responses to the UCA and Calgary motions, including submitting additional information, on December 16, 2016. The UCA and Calgary filed reply submissions on December 21, 2016.

18. On January 13, 2017, the Commission issued its rulings on the motions. ATCO Pipelines was directed to file further responses to IRs, in accordance with this ruling. The Commission

3 On March 7, 2017 the AUC amended Rule 001. Section 13 under the old Rule 001 is now Section 28 in the current version of Rule 001.

established the following schedule for the remainder of this proceeding and set tentative dates for an oral hearing, as follows:

Process step	Deadline
Filing of further responses from ATCO Pipelines	January 23, 2017
Intervener evidence	February 10, 2017
IRs on intervener evidence	February 24, 2017
Response to IRs on intervener evidence	March 6, 2017
Rebuttal evidence	March 20, 2017
Submissions from parties on the need for an oral hearing	March 24, 2017
Determination of whether an oral hearing is required	March 27, 2017
Oral hearing commencement, if required	April 24, 2017

19. ATCO Pipelines submitted rebuttal evidence five days in advance of the scheduled deadline.

20. Parties first provided comments on the need for an oral hearing on December 8, 2016. The UCA submitted that the Commission should schedule an oral hearing on the basis of contentious issues to be tested, such as the change in depreciation methodology. The UCA suggested that the issue could be revisited once the record was more complete, after rebuttal evidence. Calgary supported the UCA's position and requested that the Commission schedule an oral hearing. ATCO Pipelines submitted that an oral hearing was unnecessary and that the proceeding to address this application could be efficiently conducted in writing. In ATCO Pipelines' submission, the need for an oral hearing in the previous GRA was largely driven by the fact that ATCO Pipelines had not appeared before the Commission in an oral hearing for some time. However, in this application, ATCO Pipelines had appeared before the Commission "a year ago in a full revenue requirement hearing and many of the issues covered then are similar to those at play in this GRA."

21. On March 21, 2017, the UCA submitted further comments on the need for an oral hearing. The CCA submitted comments on March 22, 2017. Other parties' comments were submitted on March 24, 2017. The UCA supported an oral hearing for depreciation-related matters, with the remaining matters to be dealt with through written argument.[4] The CCA requested a second round of IRs and stated that it supported the UCA's request for a focused oral hearing on depreciation.[5] WEG indicated that it was not opposed to the UCA and CCA requests, however, it indicated that it did not foresee participating in a hearing should the Commission determine that an oral hearing is necessary.[6] Calgary indicated that it had no objection to the UCA's proposal of a limited scope oral hearing and confirmed that it would benefit from a second round of IRs on non-depreciation matters. Calgary also stated that should the Commission determine that an oral hearing with a broader scope was required, Calgary would participate in lieu of an additional round of IRs.[7] ATCO Pipelines stated that while its position was that an oral hearing is not necessary, it did not oppose a short oral hearing limited to

4 Exhibit 22011-X0140.
5 Exhibit 22011-X0141.
6 Exhibit 22011-X0142.
7 Exhibit 22011-X0143.

depreciation issues. ATCO Pipelines continued to "strongly oppose" any further process with respect to non-depreciation issues.[8]

22. On March 27, 2017, the Commission issued a letter in which it determined that an oral hearing was not required, but approved a second round of IRs limited to depreciation matters, clarification of IRs on the record, and ATCO Pipelines' rebuttal evidence. The Commission established the following schedule for the remainder of the proceeding:

Process step	**Deadline**
Round 2 IRs to ATCO Pipelines and the UCA	April 11, 2017
Response to IRs	April 26, 2017
Argument	May 17, 2017
Reply argument	May 31, 2017

23. Parties submitted IRs, responses, argument and reply argument in accordance with this process schedule.

24. On June 7, 2017 the UCA submitted a motion stating that it had two concerns with ATCO Pipelines' reply argument, firstly that ATCO Pipelines argued issues for the first time in reply argument and secondly that ATCO Pipelines misrepresented the UCA's position. In its motion, the UCA submitted that it was not seeking any further relief beyond identifying ATCO Pipelines' errors and the relief that the UCA continues to seek.[9] On June 9, 2017, ATCO Pipelines filed a response to the UCA's motion stating that it objected to the UCA's claim of inappropriate reply argument and that no decision or order was sought by the UCA. ATCO Pipelines did not request any relief and stated that it was content to leave these matters with the Commission in its deliberations.[10]

25. In reaching the determinations contained within this decision, the Commission considered all relevant materials comprising the record of this proceeding, including the evidence and argument provided by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

2 Background

26. On February 29, 2016, the Commission issued Decision 3577-D01-2016[11] with regard to ATCO Pipelines' 2015-2016 GRA and directed ATCO Pipelines to submit a compliance filing no later than April 14, 2016.

27. ATCO Pipelines filed its compliance filing to Decision 3577-D01-2016 with the Commission on April 14, 2016, requesting approval of its 2015-2016 final revenue requirements.

[8] Exhibit 22011-X0144.
[9] Exhibit 22011-X0191.
[10] Exhibit 22011-X0192.
[11] Decision 3577-D01-2016: ATCO Pipelines, 2015-2016 General Rate Application, Proceeding 3577, Application 1611077-1, February 29, 2016.

On September 13, 2016, the Commission issued Decision 21515-D01-2016.[12] In Decision 21515-D01-2016, ATCO Pipelines was directed to refile its 2015-2016 GRA compliance filing on or before October 6, 2016.[13] In the same decision, the Commission set out a number of directions for ATCO Pipelines to complete as part of its second compliance filing application.

28. On October 6, 2016, ATCO Pipelines Ltd. filed its second refiling of its 2015-2016 GRA. ATCO Pipelines requested approval of its final revenue requirements of $208,865,000 and $237,968,000 for 2015 and 2016, respectively and of its revised deferral account settlement of $11,449,000. On November 28, 2016, the Commission issued Decision 22058-D01-2016,[14] which approved ATCO Pipelines' final revenue requirements for 2015 and 2016.

29. On December 13, 2016, the Commission issued Decision 22087-D01-2016[15] approving ATCO Pipelines' 2017 interim revenue requirement at 60 per cent of ATCO Pipelines' 2017 forecast revenue requirement increase, which resulted in a monthly rate of $21,584,317 to be collected, effective January 1, 2017. The interim monthly rate remains in effect until another interim rate and/or final rate is approved by the Commission.

30. In this application, ATCO Pipelines is requesting approval of its 2017-2018 forecast revenue requirements, which is provided in the table below:

Table 1. Utility revenue requirement

	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)			
Mid-year rate base	1,082,535	1,263,439	1,505,637	1,691,138
Rate of return	6.94%	6.84%	6.14%	6.09%
Return on rate base	75,105	86,439	92,469	102,942
Operating costs	59,647	62,388	67,836	70,543
Taxes other than income	14,625	16,355	18,266	18,750
Net depreciation expense	55,680	66,825	89,564	97,316
Income taxes	(798)	1,597	3,657	3,814
Total utility revenue requirement	**204,259**	**233,604**	**271,792**	**293,365**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-001(a) Attachment, Schedule 4.1-1, PDF page 8.

3 Discussion of issues

31. This decision includes a discussion of the contentious cost items forecast in ATCO Pipelines GRA and matters that the Commission has otherwise determined are required to be specifically addressed in the decision. The Commission has reviewed all forecast costs that are the subject matter of this proceeding and, subject to any specific findings contained in this decision, is satisfied that they are reasonable.

12 Decision 21515-D01-2016: ATCO Pipelines Ltd., 2015-2016 Revenue Requirements Compliance Filing to Decision 3577-D01-2016, Proceeding 21515, September 13, 2016.
13 Decision 21515-D01-2016, paragraph 135.
14 Decision 22058-D01-2016: ATCO Pipelines, 2015-2016 Revenue Requirements Second Compliance Filing to Decision 3577-D01-2016, Proceeding 22058, November 28, 2016.
15 Decision 22087-D01-2016: ATCO Pipelines, 2017 Interim Revenue Requirement, Proceeding 22087, December 13, 2016.

3.1 Information asymmetry

32. In argument, the UCA submitted that ATCO Pipelines had "failed to provide relevant information, exploiting the information asymmetry between it and interveners/the Commission, and misrepresented the UCA's evidence in its responses."[16] The CCA submitted that the Commission has previously recognized the importance of good faith disclosure to address information asymmetry:

> Information asymmetry is and will remain a challenge for regulatory tribunals, but does not warrant an alteration of the prudence tests undertaken by the Commission. The process employed by the Commission in its consideration of this, and all rate-related applications, incorporates robust pre-hearing discovery mechanisms, which parties are expected to employ to their maximum benefit. The Commission considers that the existing IR process, when engaged in by the parties in a focused manner, and in good faith, provides ample opportunity for the development of an unbiased and complete record, which can be further tested in cross-examination.[17]

33. The UCA also cited several examples where it argued that ATCO Pipelines mischaracterized the evidence of Bowman/Lee on depreciation[18] and provided responses to IRs that did not directly answer the question posed. The UCA argued that improper disclosure should result in reduced weight being applied to the related evidence because the onus is on the utility to justify its costs proposed in this general rate application, which is consistent with the Supreme Court of Canada interpretation of the *Gas Utilities Act*[19] and prior Commission findings.[20]

34. ATCO Pipelines argued that the UCA's accusation of information asymmetry is without merit and should be rejected. Where the information is available, ATCO Pipelines has provided evidence and responses according to the information requested. Conversely, where information is not available or had not been retained, ATCO Pipelines cannot be required to provide information that does not exist. ATCO Pipelines submitted that it had responded to the Commission and interveners in "good faith" contrary to the UCA's allegation.[21]

Commission findings

35. The Commission continues to be of the view that good faith disclosure of information in the interrogatory process is imperative in developing the record in any proceeding. In the current proceeding, the Commission notes the concerns expressed by the UCA and the CCA, but is not persuaded that any reduced weight should be applied to the evidence on the record. The determinations made in this proceeding will be based on the merits of ATCO Pipelines' application. The burden of proof is on the utility to show that increases, changes or alterations to rates are just and reasonable as required under the *Gas Utilities Act*.

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16 Exhibit 22011-X0183, UCA argument, paragraph 16.
17 Decision 2014-283, paragraph 66.
18 Exhibit 22011-0183, UCA argument, paragraphs 22-23.
19 *ATCO Gas and Pipelines Ltd. v. Alberta* (Utilities Commission), 2015 SCC 45 at paragraph 44; *Gas Utilities Act*, Section 44(1).
20 Decision 3577-D01-2016, paragraphs 87-88 and 99; Decision 2013-407: AltaLink Management Ltd., 2013-2014 General Tariff Application, Proceeding 2044, Application 1608711-1, November 12, 2013, paragraph 775, citing Decision 2005-019: AltaLink Management Ltd. and TransAlta Utilities Corporation, 2004-2007 General Tariff Application, Application 1336421-1, March 12, 2005, pages 14-15.
21 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 11.

36. In Decision 21747-D01-2017,[22] the Commission engaged in a detailed analysis of ATCO Electric Ltd.'s conduct in the original proceeding and found that, on several occasions, ATCO Electric's approach in responding to questions unnecessarily lengthened the hearing and resulted in an inefficient regulatory process and unnecessary costs. As a consequence, the Commission ordered ATCO Electric shareholders to pay some costs. While this proceeding did not have an oral hearing component, the Commission finds that ATCO Pipelines' level of responsiveness in IR responses and its conduct in these proceedings presents similar concerns, although perhaps not as egregious as in the ATCO Electric proceeding. Generally, the Commission is concerned that the ATCO Electric Ltd., ATCO Gas, and ATCO Pipelines (the ATCO utilities) are not responding to questions in proceedings before the Commission in a manner that fulfills the Commission's expectations with respect to record development and contributing to a better understanding of the issues before the Commission in an efficient manner. The Commission also acknowledges, however, that in certain other instances in this proceeding, such as with respect to the presentation of its tendering material, ATCO Pipelines submitted information in an organized and transparent manner, as also noted by the UCA.

4 Rate base

37. ATCO Pipelines updated its application in response to IRs with its revised revenue requirements and tables outlining the rate base, plant in service and capital expenditures. ATCO Pipelines' requested forecast revenue requirement was based on the rate base provided in the following table:

Table 2. ATCO Pipelines rate base

	2013 actual	2014 actual	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)					
Mid-year plant in service	843,187	931,685	1,061,665	1,229,500	1,472,112	1,658,294
Necessary working capital	28,006	24,909	30,870	33,939	33700	33,039
Rate base	871,193	956,594	1,082,535	1,263,439	1,505,812	1,691,333

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-001(a) Attachment, Schedule 2.1-1, PDF pager 4; and AP-AUC-2016NOV18-003(a) Attachment, Schedule 2.1-1, PDF page 34.

22 Decision 21747-D01-2017: ATCO Electric Ltd., 2015-2017 Transmission General Tariff Application, Costs Award, Proceeding 21747, January 30, 2017.

38. Mid-year plant in service is comprised of the mid-year balance of property, plant and equipment less work in progress, accumulated depreciation and net contributions. The mid-year plant in service was provided in the following table:

Table 3. ATCO Pipelines plant in service at December 31

	2013 actual	2014 actual	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)					
Property plant and equipment	1,620,627	1,783,060	2,012,934	2,339,772	2,663,820	2,879,265
Less: work in progress	79,642	93,267	152,449	135,146	108,021	175,486
Accumulated depreciation	567,384	585,551	606,422	736,320	785,659	856,534
Net contributions	92,788	121,685	132,500	130,870	133,353	137,445
Current year-end balance	880,813	982,557	1,121,563	1,337,436	1,606,787	1,709,800
Previous year-end balance	805,561	880,813	981,767	1,121,563	1,337,436	1,606,787
TOTAL	1,686,374	1,863,370	2,103,330	2,458,999	2,944,223	3,316,587
Mid-year plant in service	843,187	931,685	1,051,665	1,229,500	1,472,112	1,658,294

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-001(a) Attachment, Schedule 2.2-1, PDF page 5.

4.1 Rate base forecasting accuracy

39. Mr. Russ Bell, on behalf of the UCA, provided evidence which focussed on three general areas: forecast accuracy, operational efficiency and the Mercer study. With respect to forecast accuracy, Mr. Bell first stated that ATCO Pipelines has a history of over earning its authorized return, which appears to be due to "systematic over forecasting." The evidence identified "a pattern of over forecasting" in rate base, O&M and administration and general (A&G) amounts in the years 2013 to 2016.

40. Mr. Bell compared the actual and approved rate base for the years 2013 to 2016 in the evidence and determined that, while rate base and plant in service show over forecasting, capital expenditures do not show a pattern of over forecasting so it must be concluded that the over forecasting has occurred in capital additions.[23] The following table shows Mr. Bell's analysis:

Table 4. Comparison of actual versus approved rate base and plant in service amounts from 2013-2016

	2013	2014	2015	2016
	($000)			
Rate base				
Actual	871,193	956,594	1,082,535	1,263,439
Approved	878,823	978,819	1,140,223	1,387,646
Variance	(7,630)	(22,225)	(57,688)	(124,207)
%	-0.78%	-2.27%	-5.06%	-8.95%
Mid-year plant in service				
Actual	843,187	931,685	1,051,665	1,229,500
Approved	853,698	950,199	1,112,908	1,358,405
Variance	(10,511)	(18,514)	(61,243)	(128,905)
%	-1.23%	-1.95%	-5.50%	-9.49%

Source: Actual and approved in UCA evidence taken from Schedule 2.1-1 in Exhibit 22011-X0056.

[23] Exhibit 22011-X0130, UCA evidence, PDF pages 2-5.

41. Mr. Bell recommended that the Commission direct ATCO Pipelines to implement some kind of probabilistic model or "uncertainty adjusted forecast" to estimate capital additions subject to deferral treatment to minimize intergenerational inequity which would occur when customers pay today and do not receive the money back until a future proceeding, for costs which were not put into service as forecast.[24]

42. For capital that is not subject to deferral, where there is a growing construction work in progress (CWIP) balance, Mr. Bell was also concerned with "double counting" the return on rate base. The evidence stated that "Customers pay the return on assets in rates, and then the utility will add allowance for funds used during construction (AFUDC) to the cost of the asset not placed into service, as these costs are in CWIP over year end, resulting in customers paying the return a second time, effectively double counting the return." Mr. Bell recommended that the "double counting" could be addressed by removing the AFUDC from 2016 ending CWIP balances when they are added into plant in service in 2017.[25]

43. In its rebuttal evidence, ATCO Pipelines stated that the table provided in the UCA evidence is inaccurate because it includes items covered in the UPR project deferral account, which the Commission had determined in the 2015-2016 GRA had uncertainty in forecasting. ATCO Pipelines provided an analysis, shown below, which excluded capital deferral items and which showed that its rate base actuals are close to, and even exceed, approved amounts. Further, ATCO Pipelines stated that when it makes capital investments greater than the approved forecast, it does not earn any return on such investments for the test period:[26]

Table 5. Comparison of actual versus approved rate base adjusted for deferral capital

Rate base	2015	2016
	($000)	
Approved (from Decision 22058-D01-2016)	1,140,223	1,387,646
Less: settlement of capital subject to deferral	(63,426)	(145,726)
Rate base adjusted for deferral capital	1,076,797	1,241,920
Actual rate base (per application, Table 2.1-1)	1,082,535	1,263,429
Variance actual to approved	5,738	21,519
% variance actual to approved	0.50%	1.55%

44. The above table was revised slightly in response to the UCA's argument, resulting in actual rate base being 0.55 per cent above approved in 2015 and 1.98 per cent above approved in 2016 after removing capital subject to deferral treatment.[27]

45. ATCO Pipelines argued that the UCA inaccurately presents ATCO Pipelines as "double counting" return for capital additions not subject to deferral accounts. ATCO Pipelines noted that the application of AFUDC on year-end balances in CWIP is an approved practice, which aligns with Regulation 546/1963 – the *Uniform System of Accounting for Natural Gas Utilities*, Section 497. In this particular instance, the UCA has "cherry picked" the example of a project in "rates" that also collects AFUDC due to the asset not being placed in service as forecast and in CWIP over year-end. The UCA has conveniently ignored the fact that ATCO Pipelines'

24 Exhibit 22011-X0138, UCA-AUC-2017FEB28-003(a-c).
25 Exhibit 22011-X0130, UCA evidence, PDF pages 6 and 19.
26 Exhibit 22011-X0139, ATCO Pipelines rebuttal evidence, PDF pages 4-5.
27 Exhibit 22011-X0190, ATCO Pipelines reply argument, Table 1, PDF page 44.

expenditures of non-deferral capital exceeded approved amounts in 2015 and 2016 and ATCO Pipelines did not receive a return on these higher amounts in those years. ATCO Pipelines argued that the UCA's recommendation to remove AFUDC from 2016 ending CWIP balances when they are added into plant in service in 2017, should be disregarded.[28]

Commission findings

46. The Commission agrees with ATCO Pipelines that including capital subject to deferral account treatment when assessing ATCO Pipelines' forecast accuracy artificially inflates the variance between actual and approved while discounting the fact that some capital expenditures, such as UPR costs, are not forecastable and subject to uncertainty. In addition, ATCO Pipelines' expenditures of non-deferral capital exceeded approved amounts in 2015 and 2016, which results in ATCO Pipelines earning a lower return on rate base from higher actual forecast expenditure. The Commission considers this is a typical situation that might arise under prospective forecasting. Further, the Commission is not persuaded that the evidence supports a change in the application of AFUDC on year-end balances in CWIP. AFUDC on year-end balances in CWIP is an approved practice and is consistent with Regulation 546/1963, *Uniform System of Accounting for Natural Gas Utilities*, Section 497.

4.2 Capital expenditures

47. ATCO Pipelines provided the following table showing forecast capital expenditures for the test years and actuals for 2015 and estimates for 2016:

Table 6. Total capital expenditures by category

	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)			
UPR	143,405	97,940	182,481	90,886
Growth	41,214	63,825	51,047	92,153
Improvements and replacements	64,681	74,483	84,965	75,393
Relocations	5,312	2,566	8,751	8,751
IT projects	3,059	3,016	3,009	2,263
Total	257,671	241,830	330,253	269,446
Contributions	8,053	3,482	7,789	7,789

Source: Exhibit 22011-X0005, application, Table 2.3-1, Section 2.3, page 1 of 2.

48. ATCO Pipelines explained that the growth in capital expenditures was driven by new industrial delivery service, new utility growth of local distribution companies, new producer receipts and Alberta system upgrades which were identified in the NGTL planning process for the integrated Alberta system. The forecast improvement and replacement capital expenditures are required for pipeline and facility integrity related initiatives, including in-line inspection (ILI).The relocation projects are driven by the level of municipal, provincial and private developments which result in requests for ATCO Pipelines to relocate its existing facilities. Finally, IT expenditures are required to maintain, support and enhance information systems necessary in the provision of safe, reliable service.

28 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraphs 125-127.

49. The Commission notes that there are several business cases that address capital expenditures that are of a longer term nature or program. For example, the depth of cover program forecast costs of $6.031 million in 2017 and $6.331 million in 2018, which is only a portion of the approximately $25 million of expenditures for the program plus $8.159 million in removal costs. The depth of cover program replaces or removes sections of pipeline that do not have sufficient depth of cover as required under the Albert Pipelines Rules and Canadian Standards Association (CSA) Z662-15. Appendix A of the business case provides the actual/forecast in-service date for each project, the location of the pipeline being addressed, the operating/abandonment status of the pipeline, and the original date of installation.

50. ATCO Pipelines also forecast $36.008 million in 2017 and $34.749 million in 2018 for its in-line inspections program which is part of ATCO Pipelines' overall integrity program and is a component of improvement and replacement capital expenditures. From 2015-2022, ATCO Pipelines has forecast capital costs of $244.161 million plus removal costs of $21.775 million.[29] The Commission considers that ILI is a key component of ATCO Pipelines' integrity program required to comply with CSA Z662-15, Section 3.2 and Annex N. The ILI program is a multi-year program, which was approved by the Commission in Decision 3577-D01-2016.

51. The Commission has reviewed the depth of cover program and ILI program and is satisfied that ATCO Pipelines has adequately explained why the expenditures are required to ensure pipeline integrity, while also providing tables that detail the program. The Commission also notes that interveners did not oppose these capital costs. The Commission approves ATCO Pipelines' forecast capital expenditures for these two programs as filed, but directs ATCO Pipelines in all future applications to clearly explain all removal costs, whether all assets were retired in the ordinary course, and identify the accounts associated with the removal costs.

52. In the section that follows, the Commission includes a discussion of certain applied-for capital projects. Subject to the specific findings and directions below, the Commission approves ATCO Pipelines' capital projects as filed.

4.2.1 Urban Pipeline Replacement projects

53. On January 17, 2014, the Commission issued Decision 2014-010[30] which approved the proposal related to the need for ATCO Pipelines' UPR pipelines. The UPR proposal was comprised of 12 individual pipeline projects, four in Edmonton and eight in Calgary, all of which included construction of new high-pressure pipelines within transportation utility corridors to replace aging infrastructure and to meet the 20-year demand for natural gas. In Decision 2014 010, the Commission found that ATCO Pipelines had demonstrated a need to relocate the Edmonton and Calgary systems and was satisfied that approval of the UPR proposal was the best alternative to address that need. ATCO Pipelines' UPR application was approved subject to the direction that ATCO Pipelines must advise the Commission of any material changes to the timing or any other aspect of the implementation of the UPR proposal at the time of any related facilities application or at the time of its next GRA, whichever comes first.[31]

29 Exhibit 22011-X0009, 7.0 Attachments, PDF page 66.
30 Decision 2014-010: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., Urban Pipeline Replacement Project, Proceeding 1995, Application 1608617-1, January 17, 2014.
31 Decision 2014-010, paragraphs 249 and 300.

54. ATCO Pipelines provided a table outlining its forecast expenditures for several UPR projects:

Table 7. Forecast ATCO Pipelines UPR capital expenditures

Description	2014 life to date (LTD)	2015 actual	2016 estimate	2017 forecast	2018 forecast	2019 forecast	Total project
	($000)						
Edmonton							
Northwest Edmonton Connector	26,347	1,718	(15)	-	-	-	**28,050**
Southwest Edmonton Connector	8,026	5,662	44,958	34,567	-	-	**93,213**
Northeast Edmonton Connector	-	1,842	571	4,520	26,686	-	**33632**
South Edmonton Connector	-	-	-	500	2,000	15,500	**18,000**
Calgary							
East Calgary Connector	13,458	43,817	8,634	690	-	-	**66,599**
Southeast Calgary Connector	11,078	36,355	14,597	400	-	-	**62,430**
Northeast Calgary Connector	10,451	48,890	9,531	4,560	-	-	**73,432**
Peigan Trail Lateral	-	-	11,756	3,044	-	-	**14,800**
West Calgary Connector	-	5,109	4,808	73,200	5,000	-	**88,117**
Southwest Calgary Connector	-	-	3,000	56,000	15,800	-	**74,800**
Northwest Calgary Connector	-	-	100	5,000	41,400	34,500	**81,000**
Total capital	**69,360**	**143,405**	**97,940**	**182,481**	**90,886**	**50,000**	**634,073**

*Costs do not include ATCO Gas costs.
Source: Exhibit 22011-X0005, application, Table 2.3.1-1, Section 2.3.1, page 5 of 6.

55. In the current application, ATCO Pipelines provided an update on the UPR projects:

- Three connector projects, namely the Northeast Calgary Connector, East Calgary Connector and Southeast Calgary Connector, were commissioned.
- Commission permitting has been received for the Southwest Edmonton Connector and Peigan Trail Laterals projects.
- Facilities permit applications have been submitted for the West Calgary Connector project.
- Detailed engineering, including hydraulic design and consultation with NGTL, is underway or nearly complete for all UPR projects that will be commissioned in 2017.

56. ATCO Pipelines forecast to complete the following work for UPR projects in the test period:

- The Beddington Extension component of the Northeast Calgary Connector in Quarter 1 (Q1) of 2017.
- Commissioning of the Calgary East Industrial Gate Station (part of the East Calgary Connector project) in Q2 2017.
- Construction completion and commissioning of all components of the Southwest Edmonton Connector project in Q2 2017.

- Transfer/abandonment of the Swan Hills Transmission pipeline (part of the Southwest Edmonton Connector) in Q3 2017.
- Transfer/abandonment of the Mainline North, Mainline North Loop and Ogden Branch pipelines (part of the Peigan Trail Lateral project) in Q2 2017.
- The tie-in between the Southeast Calgary Connector and the Shepard Lateral and commissioning in Q4 2017.
- Construction of the West Calgary Connector in Q2 2017.
- Commissioning of the West Calgary Connector and the Calgary West Gate and Calgary West Springs Gate Stations in Q4 2017.
- Transfer/abandonment of the Carbon Transmission, Carbon Loop Transmission, Petrogas-Meadowfield Transmission and Jumping Pound Transmission pipelines (part of the West Calgary Connector project) in Q3 2018.
- Construction of the Southwest Calgary Connector in Q3 2017.
- Commissioning of the Southwest Calgary Connector, Palliser Lateral, Priddis Control Station, Palliser Gate Station and Bridlewood Gate Station in Q1/Q2 2018.
- Transfer/abandonment of the Turner Valley Transmission and Jumping Pound Transmission pipelines (part of the Southwest Calgary Connector project) in Q3 2018.
- Preliminary planning and engineering for the Northwest Calgary Connector, Northeast Edmonton Connector and the South Edmonton Connector projects.

57. ATCO Pipelines indicated that the capital expenditure forecasts are based on contractor pricing knowledge gained from recent competitive processes. ATCO Pipelines further noted that the overall total UPR forecast is within 2.5 per cent of the forecast submitted in its 2015-2016 GRA.[32]

58. The CCA noted that ATCO Pipelines confirmed that NGTL has not yet authorized the Northeast Edmonton Connector and the South Edmonton Connector.[33] The CCA noted that pursuant to the Alberta System Integration Agreement, Section 4.5 (clause 4.5 f (iii)), NGTL is required to evaluate and authorize any proposed construction on the Alberta System except for Minor Modifications:

> (iii) ATCO shall not, subject to Section 4.5(d)(ii)(a), seek Regulatory Approvals for construction of or modifications to any Pipeline Facilities on the Alberta System without the prior approval of NGTL to ensure optimal expansion of the combined Alberta System; <u>provided however</u> that the foregoing shall not restrict ATCO from seeking Regulatory Approvals for and constructing Minor Modifications.

59. The CCA expressed concern with respect to NGTL's authorization process and noted that ATCO Pipelines was directed by the Commission "to provide more detailed information to support the hydraulic analysis, technical justification and financial justification of its pipeline projects, including NGTL's rationale for its approvals."[34]

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32 Exhibit 22011-X0005, application, Section 2.3.1, pages 1-4 of 6.
33 Exhibit 22011-X0074, AP-CCA-2016NOV18-026(b).
34 Decision 3577-D01-2016, Appendix 3, Direction 3.

60. The CCA argued that prior to construction of these assets, ATCO Pipelines should be required to file all relevant information related to the evaluation and approval of the proposed UPR facilities as directed by the Commission including hydraulic analysis, technical justification, and financial justification of its pipeline projects, including NGTL's rationale for its approvals.[35]

61. As part of the integration agreement (Section 4.5(c)), the CCA submitted that NGTL is required to prepare and maintain an Alberta System Annual Plan to describe the facilities required for the Alberta system including the ATCO footprint.[36] The CCA maintained that this plan should be part of each ATCO Pipelines tariff filing. The CCA recommended that ATCO Pipelines be directed to ensure the annual plans relevant to the test years are included in each filing going forward to confirm the longer-term plans for the Alberta System and increase transparency for any required upgrades.[37]

62. With respect to filing the Alberta System Annual Plan in each ATCO Pipelines tariff filing, ATCO Pipelines noted that this document is publicly available information and a link to this information was provided in this GRA in response to AP-UCA-2016NOV18-023. ATCO Pipelines asserted that adding voluminous, publicly available documents to the record is not required nor efficient.[38]

63. The UCA submitted that it has a continuing concern that the procurement and sourcing practices of Alberta utilities carry significant cost risk (i.e., low tender participation unnecessarily leads to cost increases that inflate rate base), and that it appreciated the effort that ATCO Pipelines undertook to present its tendering material in an organized and transparent manner. The UCA stated that utility tendering processes drive significant costs and should be reviewed as a matter of course during GRA proceedings.[39]

64. ATCO Pipelines submitted that while it understands that the UPR is a significant project attracting commensurate interest from interveners, the UPR procurement practices have now been subject to very extensive review in two GRAs spanning four test years. ATCO Pipelines argued that the detailed review and voluminous information on procurement issues filed on the record in the last two GRAs should not become a routine requirement.[40] ATCO Pipelines argued that it provided pipeline size information in each of the UPR Project updates in the GRA. ATCO Pipelines is amenable to providing current sizing information on both the South Edmonton Connector and the Northeast Edmonton Connector at the facilities application stage.

Commission findings

65. On January 17, 2014, the Commission issued Decision 2014-010 which approved the need for ATCO Pipelines' UPR program in Calgary and Edmonton. The Commission has reviewed the forecast expenditures and considers that ATCO Pipelines has adequately justified the expenditures and that the overall UPR is consistent with costs forecast in ATCO Pipelines' last GRA.

[35] Exhibit 22011-X0177, CCA argument, PDF pages 11-12.
[36] Exhibit 22011-X0177, CCA argument, PDF page 12.
[37] Exhibit 22011-X0177, CCA argument, PDF page 12.
[38] Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 225.
[39] Exhibit 22011-X0183, UCA argument, paragraph 117.
[40] Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 161.

66. The Commission notes that ATCO Pipelines was amenable to providing sizing information on both the SEC and the Northeast Edmonton Connector at the facilities application stage. The Commission considers this would be of assistance to the Commission and parties, and directs ATCO Pipelines to provide current sizing information on both the South Edmonton Connector and the Northeast Edmonton Connector at the facilities application stage.

67. The Commission notes that the majority of the information with regard to ATCO Pipelines' UPR procurement process was filed confidentiality in the current proceeding. As noted by ATCO Pipelines, there were over 20,000 pages of procurement information filed in the proceeding, with the UCA being the only intervener commenting on the procurement process and noting satisfaction with how ATCO Pipelines presented its tendering material in an organized and transparent manner. Although the Commission recognizes that the UCA expressed concern with general Alberta utility tendering practices, the Commission considers that the level of detail filed in the current proceeding should not necessarily be required in all future proceedings. Accordingly, in the absence of any material change(s) to the UPR program, ATCO Pipelines is directed to provide an executive summary of its procurement practices on a go forward basis that includes:

- identifying the number of bidders in the process
- a justification of the winning bidder
- any changes in tendering process or atypical results arising from its procurement process

68. With respect to filing NGTL's annual plan, the Commission is not persuaded that the annual plan and additional information is required for the Commission to assess ATCO Pipelines' capital expenditures and forecast revenue requirement. Moreover, as the information is publicly available, the information is available to parties and can be filed on the record if a party considers that it would be of assistance to the Commission in assessing ATCO Pipeline's expenditures and forecasts in a future rate application. The CCA's request is therefore denied.

4.2.1.1 WEG submission on UPR being excluded from ATCO Pipelines' general system revenue requirement

69. WEG submitted that it was concerned about paying disproportionately, through NGTL tolls, for ATCO Pipelines revenue requirement amounts that do not benefit the NGTL system export shippers whose customers consume gas outside Alberta.

70. WEG noted that the ATCO Pipelines' forecast UPR capital expenditures are $182.48 million and $90.9 million in 2017 and 2018 respectively. The total capital costs of the UPR spanning the years 2014-2019 is reported by ATCO Pipelines to be in the amount of $634 million.[41] For the 2017 and 2018 test years, capital expenditures account for $17.7 million and $18.8 million increase in its applied-for revenue requirement, respectively. WEG submitted that approval of UPR costs results in higher NGTL tolls for WEG Members, without any of the costs caused by export shippers.

[41] Exhibit 22011-X0005, application, Section 2.3.1, PDF page 70.

71. WEG noted that the National Energy Board (NEB) has stated:[42]

> When identifiable facilities which do not increase the throughput capacity on the integrated system are installed to provide a custom service to a specific user or group of users, then such discrete facilities might not form part of the integrated system.

72. WEG argued that UPR consists of facilities which do not increase the throughput capacity on the ATCO Pipelines/NGTL integrated system. Despite ATCO Pipelines' assertions that the ATCO Pipelines facilities can provide benefit to export shippers, there is no evidence on the record of this proceeding confirming that export delivery shippers receive any asserted benefits from integration of the ATCO Pipelines facilities.[43] ATCO Pipelines confirmed that UPR does not directly facilitate movement of gas to border export points;[44] and no receipt locations are currently connected directly to the UPR facilities.[45] WEG submitted that the primary purpose of the UPR is to provide a custom service to its affiliate ATCO Gas for the purpose of facilitating ATCO Gas's provision of gas distribution services to intra-Alberta customers located in Edmonton and Calgary.[46] WEG asserted that UPR consists of discrete facilities tantamount to individual customer delivery facilities. Therefore, UPR should not become part of the integrated Alberta System (or NGTL System) revenue requirement. WEG argued that capital costs and expenditures related to the UPR should be recovered from those it directly benefits, namely ATCO Gas and its Alberta-based gas distribution customers. WEG therefore requested that the capital costs and expenditures related to the UPR be excluded from ATCO Pipelines' general system revenue requirement, or such alternate relief as the Commission may determine.[47]

73. Calgary, the UCA and the CCA all opposed WEG's submission. Specifically, interveners argued that:

- The current proceeding is to determine revenue requirement and the issues raised by WEG are cost allocations and rate design issues more appropriately determined in a Phase II proceeding.
- No notice was provided for such a substantial shift in regulatory practice and procedural fairness requires notice to other potentially affected parties, and also requires that current parties to the proceeding have an opportunity to file evidence responding to WEG's claim.
- WEG improperly filed evidence in argument.

74. ATCO Pipelines also opposed WEG's submission. While having previously advised that it will pursue its concerns in other forums, ATCO Pipelines noted that WEG requested that the Commission exclude UPR capital costs and expenditures from ATCO Pipelines' revenue requirement. Procedurally, such a request is entirely out of order. ATCO Pipelines submitted that WEG sandbags the applicant at the stage of final argument by advocating for a disallowance, which is not based on any premise of imprudence or unreasonableness of the costs at issue but is rather rooted in cost allocation and rate design matters that would be crippling to

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42 NEB Reasons for Decision GH-2-87, *TransCanada PipeLines Ltd. Applications for Facilities and Approval of Toll Methodology and Related Tariff Matters* (July 1988) ("GH-2-87") at page 73.
43 Exhibit 22011-X0076, ATCO Pipelines response to WEG, AP-WEG-2016NOV18-006(a-b), PDF page 14.
44 Exhibit 22011-X0076, ATCO Pipelines response to WEG, AP-WEG-2016NOV18-007, PDF page 16.
45 Exhibit 22011-X0175, ATCO Pipelines response to WEG, AP-WEG-2017APR11-010(a).
46 Decision 2014-010, paragraph 104.
47 Exhibit 22011-X0180, WEG argument, PDF pages 11-12.

ATCO Pipelines' ability to function. Further, it seeks relief that has broad implications for other Alberta System ratepayers (i.e., who pays for UPR?), without notice to such ratepayers or any ability for them to respond.[48]

75. ATCO Pipelines argued that the Commission should summarily reject WEG's request and confirm that this GRA is not the appropriate forum to address WEG's concerns. ATCO Pipelines argued that there has been no finding of imprudence of UPR costs, and to the contrary the Commission has approved UPR in its entirety, to date. WEG attempted to use this GRA to implement rate design changes that affect all customers on the Alberta System. Any rate design changes are properly addressed in a forum with the participation of all directly affected stakeholders.

Commission findings

76. The Commission agrees with the submissions of interveners and ATCO Pipelines that cost allocation and rate design issues raised by WEG are beyond the scope of the current proceeding and are best addressed in NGTL's Phase II GRA, which falls under the purview and scrutiny of the NEB.

4.2.1.2 UPR deferral account

77. In ATCO Pipelines' 2015-2016 GRA, as a result of rebidding three UPR projects and noting that a reduction had occurred, ATCO Pipelines proposed a deferral account, which could be used during the test period to provide customers any benefit from future tenders below the original forecast.

78. In this application, ATCO Pipelines is not applying for a UPR deferral account. ATCO Pipelines submitted that the UPR deferral account was established due to the timing of the tendering and re-tendering as a result of the economic downturn. In ATCO Pipelines' submission, it has experienced actual contractor pricing in line with its forecasts and as such, it does not meet the deferral criteria outlined in Decision 2003-100[49] and Decision 2010-189.[50]

[48] Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 65.
[49] Decision 2003-100: ATCO Pipelines, 2003/2004 General Rate Application – Phase I, Application 1292783-1, December 2, 2003, pages 115-116.
[50] Decision 2010-189: ATCO Utilities, Pension Common Matters, Proceeding 226, Application 1605254-1, April 30, 2010, paragraphs 71-84.

79. ATCO Pipelines provided the following schedule for the UPR deferral account:

Table 8. UPR deferral account

	2015 actual	2016 estimate	Balance to settle
	($000)		
East Calgary	(1,430)	(1,852)	
South East Calgary	(1,375)	(1,856)	
North East Calgary	(1,412)	(439)	
West Calgary	-	(1,525)	
Peigan Trail	-	(530)	
South West Edmonton	-	(3,584)	
Subtotal	*(4,217)*	*(9,786)*	
Carrying costs	(48)	(205)	
Net (over)/under recovery	(4,265)	(9,991)	
Cumulative (over)/under recovery	(4,265)	(14,256)	(14,256)

Source: Exhibit 22011-X0005, application, Section 5.1, Table 5.1-8, page 10 of 10.

80. ATCO Pipelines is proposing to settle the UPR deferral account balance of ($14,256,000) in this application, as part of a net deferral refund resulting in a one-time adjustment to ATCO Pipelines' monthly revenue requirement.[51] ATCO Pipelines generally explained the over-recovery amounts resulted from "timing adjustments (in part due to re-bidding) related to when the projects were actually placed in service."[52]

81. No interveners addressed the discontinuance and settlement of the UPR deferral account in evidence, argument or reply argument.

Commission findings

82. The Commission notes that no interveners took issue with ATCO Pipelines' proposal to discontinue the UPR deferral account. The Commission agrees with ATCO Pipelines that the UPR deferral account was created because of forecast uncertainty around the retendering of specific UPR projects during the downturn of the Alberta economy, and given the fact that actual contractor sourcing was generally consistent with forecasts, a deferral account is no longer required nor meets the criteria established by the Commission's prior decisions. The Commission finds that ATCO Pipelines' request to discontinue and settle the UPR deferral account is reasonable and necessary. The Commission has reviewed the inputs and calculations of the UPR deferral account and approves ATCO Pipelines' one-time settlement amount of ($14,256,000), as filed.

4.2.2 Fort Saskatchewan Fertilizer Delivery Liquids Separator Upgrade

83. ATCO Pipelines forecast $1,025,000 in capital costs and $50,000 in removal costs in 2016 to upgrade the existing Fort Saskatchewan Fertilizer Delivery station to install a liquids knockout vessel and remote monitoring, which is now included in ATCO Pipelines 2017 opening rate base. ATCO Pipelines explained that on three occasions in the fall of 2015, volumes of liquids carried over into customer facilities downstream of the Fort Saskatchewan Fertilizer delivery station. Downstream customer processes were negatively impacted, demonstrating a

51 Exhibit 22011-X0005, application, Section 5.1, page 10 of 10.
52 Exhibit 22011-X0047, AP-AUC-2016NOV18-048, PDF page 531.

need to manage liquids that have accumulated in the upstream pipelines and may be entrained in the gas stream. The project is a stand-alone initiative to remove accumulated liquids in the pipeline system and provide reliable gas service to the customer at Fort Saskatchewan Fertilizer Delivery.[53]

84. The CCA argued that ATCO Pipelines mischaracterized the project as a general system improvement when it is an upgrade benefitting a single customer. The CCA argued that it would have expected the liquids separator to be located immediately after the compressor to be considered a general system improvement, whereas, a customer specific facility would be located on a customer site or on a customer specific lateral. As the separator installation is located at the Fort Saskatchewan Fertilizer Delivery facility, the location suggests that the separator installation is solely for the benefit of the Fort Saskatchewan Fertilizer Delivery Station and therefore was installed for the benefit of this specific customer. ATCO Pipelines confirmed no contribution was sought or received and considered the installation a system improvement.[54] Further, the costs for this installation should be disallowed given ATCO Pipelines did not seek a contribution, or confirm contractual underpinning of the installation with NGTL who manage the Alberta System Tariff. The CCA argued that there should be no net increase in rate base because the cost of the project should have been offset by a 100 per cent customer contribution.[55]

85. ATCO Pipelines argued that the facility may be located at the Fort Saskatchewan Fertilizer Delivery facility, but it provides a system service by removing liquids accumulated within system assets in order to provide customers with gas meeting tariff specifications, which is required regardless of whether the facility is located at its current site or elsewhere on the system. ATCO Pipelines explained in AP-CCA-2016NOV18-020(b) and AP-CCA-2017APR11-027(d), that the most effective means to remove oil that has accumulated is to install a liquids removal vessel at a location that favours collection based on factors such as lower elevation, high flow rates, and where liquids accumulation has been confirmed. The optimal location for liquids removal on the Legal Uncas pipeline was determined to be at the Fort Saskatchewan Fertilizer Delivery Station, where ATCO Pipelines owns and operates an existing facility. ATCO Pipelines argued that customers located downstream of this location benefit from the removal of system liquids that have accumulated on the pipeline system such that these liquids are not carried further along the pipeline. As a result, this project constitutes a system improvement and the full costs should be included in rate base and revenue requirement.[56]

Commission findings

86. The Commission accepts ATCO Pipelines' explanation that the preferred location of the separator was at the Fort Saskatchewan Fertilizer Delivery Station on the Legal Uncas pipeline after considering the lower elevation, high flow rates, and where liquids accumulated. Other than its location, there is no evidence that the separator was only for the benefit of one customer. As stated by ATCO Pipelines in argument:

> … customers located downstream of this location benefit from the removal of system liquids that have accumulated on the pipeline system such that these liquids are not carried further along the pipeline. As a result, this project constitutes a system improvement and the full costs should be included in rate base and revenue requirement

53 Exhibit 22011-X0009, PDF page 136.
54 Exhibit 22011-X0073, AP-CCA-2016NOV18-020(a) to (f).
55 Exhibit 22011-X0177, CCA argument, PDF page 5.
56 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 54-55.

87. The Commission finds that the project provides a system service by removing liquids accumulated within the system to the benefit of customers downstream on the pipeline. The Commission approves the inclusion of the Fort Saskatchewan Fertilizer Delivery Liquids Separator Upgrade costs in 2017 opening rate base.

4.2.3 Capitalization of ECDA and ILI expenses

88. ATCO Pipelines forecast $460,000 in capital expenditures for external corrosion direct assessment (ECDA). An ECDA survey is completed to identify and address locations at which corrosion activity has occurred, is occurring, or may occur by identifying areas where coating defects, disbondment or degradation is present. This information, coupled with cathodic protection data, can identify areas on the pipeline where the highest potential for corrosion development exists. ATCO Pipelines asserted that similar to ILI, ECDA is a proactive inspection for the purpose of extending the life of the pipeline, as it provides the advantage and benefit of locating specific areas where defects can form in the future rather than only areas where defects have already formed.[57]

89. The CCA argued that ATCO Pipelines' forecast ECDA surveys costs are operations expenses, and should be disallowed from the capital improvement budget. With regards to capitalization of ILI costs, CAPP asked if ATCO Pipelines capitalizes ILI costs, and if NGTL capitalizes ILI costs. ATCO Pipelines indicated it understands NGTL expenses ILI costs. The CCA also understands the expensing of ILI costs is the norm in the pipeline industry. The CCA maintained that the practice of capitalization of ILI costs should be revisited as there is no direct extension of the life of the asset by this activity. The CCA recommended that ATCO Pipelines be directed to survey and summarize the practices of other North American regulated pipeline companies to establish if ILI costs are capitalized and file the results of the survey at the time of the next general rate application.[58]

90. ATCO Pipelines maintained that ILI and ECDA are capitalizable costs as they are tools used to manage risk and extend the life of pipeline assets. Capitalization is an accepted industry practice and was approved in Decision 2013-064.[59] Further, any change to this industry practice would have a corresponding increase in O&M expense.

Commission findings

91. The Commission approves, in this proceeding, ATCO Pipelines' forecast ECDA and ILI capital expenditures because the inspections are a proactive initiative designed to detect areas of the pipeline susceptible to future defects in transmission pipeline. However, the Commission notes that the CCA argued that capitalization of ECDA and ILI costs should be treated as expense items as the inspections themselves do not extend the life of the pipeline asset nor is capitalization of these costs consistent with industry norms. As such, the Commission directs ATCO Pipelines, in its next GRA:

- To survey and summarize the practices of other North American regulated pipeline companies to establish if ILI costs are capitalized or expensed.

[57] Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 55-56.
[58] Exhibit 22011-X0177, CCA argument, paragraphs 9-11.
[59] Decision 2013-064: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., 2012 Final Revenue Requirement Application, Proceeding 2041, Application 1608689-1, February 28, 2013.

- Clarify why ECDA costs should be capitalized based on ATCO Pipelines' capitalization policy.

4.2.4 Measurement at AG Gate Stations Instromet Meter Replacement

92. In response to a CCA IR,[60] ATCO Pipelines forecast nine locations in both 2017 and 2018 for instromet replacements in ATCO Gas Gate Stations with an estimated total cost of $1.2 million or approximately $66,667 per site. ATCO Pipelines confirmed there are an additional 21 meters requiring replacement in future years. These meters are all located within AG meter stations. AG has contributed to the meter installations and NGTL has not requested the replacements. NGTL has not authorized this improvement at the ATCO Gas delivery stations located on the Alberta System or evaluated contractual underpinning.

93. The CCA noted that ATCO Pipelines conceded that the meters are still repairable. ATCO Pipelines has no specific date when they will not be repairable or when parts will run out. There is no direct evidence parts will not be available in the future, nor documentation of the frequency or nature of the failures.[61] The CCA argued that ATCO Pipelines incorrectly claimed that measurement responsibilities are fully outlined in Clause 4.4(c) (vi, vii, and viii) in the integration agreement. In fact, the responsibility for billing and identification of measurement data integrity issues lies with NGTL as outlined in Clause 4.2(a) of the integration agreement. The CCA asserted that the purpose or nature of ATCO Pipelines involvement in custody transfer measurement has not been properly examined or defined in any proceedings subsequent to commercial integration.[62]

94. The CCA is also concerned that redundant measurement facilities or equipment may be installed by ATCO Pipelines, when it is not the contractually responsible party for gas measurement either volumetrically or for energy determination. The CCA asserted that any installations, upgrades or improvements related to custody transfer measurement should be initiated solely by either NGTL, or (when ATCO Gas is involved) by ATCO Gas where the Alberta System Tariff permits. Given that ATCO Pipelines is not accountable for custody transfer measurement, the CCA saw no justification for ATCO Pipelines making decisions impacting rate base related to the requirement or replacement of custody transfer measurement. Further, the CCA sees no reason for ATCO Pipelines to own custody transfer measurement equipment, considering that ATCO Pipelines is not a stakeholder in or not the party responsible for the measurement process unless it is requested or authorized by NGTL.[63]

95. The CCA recommended that:

- The Instromet replacements as proposed be disallowed.
- ATCO Pipelines be directed to ensure all Custody Transfer measurement improvements on the Alberta System receive authorization by NGTL and confirmation of contractual underpinning is required for improvements at delivery stations on the Alberta System.
- ATCO Pipelines be directed to collaborate with NGTL to develop a complete documentation of responsibilities and authorization process related to volumetric gas

[60] Exhibit 22011-X0174, AP-CCA-2017APR11-028(a).
[61] Exhibit 22011-X0177, CCA argument, paragraph 14.
[62] Exhibit 22011-X0177, CCA argument, PDF pages 8-9.
[63] Exhibit 22011-X0177, CCA argument, paragraph 21.

> measurement and energy determination of the two companies that reflects the accountabilities of the two companies.[64]

96. ATCO Pipelines argued that there are no redundant facilities and that NGTL does not have its own, second set of measurement facilities. These facilities are installed by ATCO Pipelines acting as NGTL's agent. With respect to the CCA's recommendation that ATCO Pipelines be directed to work with NGTL in developing documentation related to accountability for volumetric gas measurement and energy determination, ATCO Pipelines submitted that this would add an unnecessary layer of bureaucracy that would burden Alberta System customers with additional costs. ATCO Pipelines argued that it is accountable for custody transfer measurement to Measurement Canada, the governing body for custody transfer energy measurement standards, the same as NGTL. Commercial integration did not involve the sale or asset transfer of measurement facilities owned by ATCO Pipelines, albeit located at ATCO Gas gate stations.[65]

Commission findings

97. The Commission accepts ATCO Pipelines' explanation that it is accountable for custody transfer measurement to Measurement Canada and that commercial integration did not involve the sale or asset transfer of measurement facilities owned by ATCO Pipelines, which are located at ATCO Gas gate stations. Further, Section 4.3 of the integration agreement states:

> **4.3 ATCO Roles and Responsibilities**
>
> - **Appointment by NGTL of ATCO as agent in dealings with ATCO Gas**
>
> ATCO shall act as agent for NGTL in respect of the commercial interface with ATCO Gas. Specifically, ATCO shall have responsibility for the following functions, as agent for NGTL, in regards to the Alberta System Customer Contract with ATCO Gas pursuant to the Tariff:
>
> …
>
> - identification <u>of necessary modification to existing delivery meter stations, identifying new types of service required</u>;
> - billing and collections;
> - <u>determination of flows at each interconnection point between ATCO and ATCO Gas as required by NGTL for real-time operations planning, for daily supply demand balancing and for after-the-fact billing</u> …[66]

98. The Commission accepts ATCO Pipelines' explanation that there are no duplicate NGTL measurement facilities and that ATCO Pipelines is properly acting, as specified in the integration agreement, as NGTL's agent. The Commission therefore approves ATCO Pipelines' forecast Instromet Meter Replacement capital expenditures as filed.

64 Exhibit 22011-X0177, CCA argument, paragraph 22.
65 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 57.
66 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 56-57.

4.2.5 Weld Integrity Inspections and Replacements

99. ATCO Pipelines forecast $3.88 million, $5.33 million and $5.44 million in capital expenditures for 2016, 2017 and 2018 respectively, to initiate a program to conduct an assessment of all in-service pre-fabrication welds identified that have the potential to contain deficiencies as a result of insufficient radiographic inspection.[67] ATCO Pipelines has also forecast an additional $3.6 million in 2019, bringing the total forecast capital expenditures to approximately $18.25 million for the four-year program.

100. The CCA submitted ATCO Pipelines is responsible for the quality and integrity of all piping fabrication, integrity, and quality under its control and oversight. The CCA asserted that ATCO Pipelines makes unsupported statements in IR responses that the inspection costs and repair costs should be capitalized and included in the revenue requirement resulting in ratepayers bearing all costs prior to any resolution of accountability and liability. The CCA argued that it is premature and unfair for ATCO Pipelines to include these costs in revenue requirements because:

- Liability and accountability for the inspection and repair costs related to this quality control failure has not been established and must be determined with certainty before ATCO Pipelines can make any attempt to include these costs in its revenue requirements.
- ATCO Pipelines has included very significant costs of over $18 million in revenue requirements. A detailed scope of work has not been produced and the estimated repair costs have not been validated for accuracy.
- ATCO Pipelines is assuming prematurely the customer is completely responsible for these costs, and ATCO Pipelines should financially benefit through rate base additions, from the potential incompetence or negligence of a party or parties that yet to be established.
- ATCO Pipelines is making a premature attempt to absolve its subcontractor, ATCO Gas, of any financial responsibility in this matter. This issue has not been completely resolved, and any attempt to allocate costs ahead of legal resolution is premature.

101. The CCA recommended that these costs be disallowed in this proceeding entirely, but re-evaluated in a future proceeding once there is cost certainty and any settlements have been completed. Further, ATCO Pipelines should be directed to track and report by hour and charge rate including contractor, engineering, accounting and legal costs to be filed a future rate filing.

102. ATCO Pipelines noted that the Commission directed that prior information responses on this issue be placed on the record at the start of the proceeding. In addition, parties had the opportunity to ask two sets of IRs and to file their own evidence. ATCO Pipelines submitted that the CCA did not participate in any of these steps with respect to these costs but now seeks disallowance of these costs in argument which is procedurally inappropriate and contrary to the rules of natural justice. It is not appropriate for a party to refrain from engaging on an issue during a proceeding and only present an adversarial position in argument, at which time ATCO Pipelines has no ability to respond with evidence. The Commission should disregard the CCA's

[67] Exhibit 22011-X0009, business cases, PDF page 87.

position.[68] With regard to the matters raised by the CCA, ATCO Pipelines notes that the CCA makes four claims:

- Liability and accountability for the inspection and repair costs have not been established.
- A detailed scope of work has not been produced and repair costs have not been validated.
- The customer is responsible for these costs.
- Absolving ATCO Gas of responsibility.[69]

103. With respect to liability and accountability, ATCO Pipelines explained that it retained third-party, externally tested and certified, radiography companies to provide expert radiography and radiographic interpretation. The process includes the radiographer providing a report detailing the code to which the welds were inspected and whether the welds passed or failed. The radiographer also attested to its qualifications to perform the inspections in that same report. The relevant inspections were inadequate in that they failed to meet industry standards with the consequence being that the radiographs were unable to determine the quality of the weld. The welds passed the subsequent hydro test and not one of these welds have failed in service, giving ATCO Pipelines no reason to doubt the veracity of the radiographic inspection.[70] ATCO Pipelines argued that liability for the inspection and repair costs lies with the radiography companies and their radiographers. ATCO Pipelines is pursuing legal action against said entities and the proceeds will serve to reduce the revenue requirement.[71]

104. With respect to the scope of work and estimated costs, ATCO Pipelines provided a forecast and a business case detailing the location and the number of welds to be re-inspected at each location in response to ATCO-AUC-2016JUN27-001(b) Attachment. ATCO Pipelines submitted that the scope of the work has been fully and adequately explained and the cost forecast is reasonable. It should be emphasized that the weld issue was discovered without incident and due to the actions of ATCO Pipelines and no other party; further demonstrating that ATCO Pipelines' actions are that of a prudent, responsible operator. The costs are appropriately capitalized because they are material and will extend the life of the assets.[72]

105. With respect to ATCO Gas, the CCA's submissions are incorrect. ATCO Gas is not a subcontractor for ATCO Pipelines. ATCO Pipelines and ATCO Gas are the same legal entity, ATCO Gas and Pipelines Ltd. Costs are tracked separately for regulatory purposes between the two divisions but a contractor relationship does not exist. Some functions of ATCO Gas and Pipelines are required by both divisions. In such cases, one division (in this case ATCO Gas) operates the function for itself and provides service to the other division (ATCO Pipelines). The costs are tracked and allocated accordingly, all in compliance with the ATCO affiliate code.[73]

68 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 228.
69 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 229.
70 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 230.
71 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 232.
72 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 233.
73 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 235.

Commission findings

106. Given the level of uncertainty with regards to locations that need to be re-inspected, the Commission supports the need for additional status updates on the Weld Integrity expenditures and further evidence to decide whether a deferral account should be established if it is found to be the responsibility of ratepayers. Before rendering a decision regarding ATCO Pipelines' Weld Integrity Inspections and Replacements capital expenditures, ATCO Pipelines is directed to file the following information in its compliance filing to this decision:

- Status of any legal proceeding against third-party radiographic inspection companies.
- Confirm whether ATCO Pipelines' forecast 2016 capital expenditure has been included in ATCO Pipelines' 2017 opening rate base.
- Explain why these costs should be capitalized and not treated as an O&M expense.
- Explain why these costs should be the responsibility of ratepayers.
- Whether the forecast weld integrity inspection should be subject to deferral account treatment.

4.2.6 Vermilion Receipt Lateral Pipeline

107. On April 6, 2017, ATCO Gas and Pipelines Ltd. (South) (ATCO) filed an application (Proceeding 22545) with the Commission under Section 11 of the *Pipeline Act* and Section 4.1 of the *Gas Utilities Act* to retire and remove the Vermilion Receipt Lateral Pipeline, Line 31 and to excavate and remove the pipeline and associated facilities. The Vermilion Receipt Lateral Pipeline and associated facilities were constructed in 2009 and are dedicated assets[74] constructed at the request of a single customer. ATCO Pipelines indicated that it wished to retire the Vermilion Receipt Lateral Pipeline because the producer customer is no longer flowing gas on the pipeline.

108. ATCO Pipelines' investment in dedicated assets is contingent upon the costs of connecting the customers being fully recovered by the present value of the demand component of the customer contract calculated over the primary term. A capital contribution in aid of construction would have been required in the event of a shortfall. In this particular case, no contribution in aid of construction was required. In the case of dedicated assets, the depreciation method applied is two times the contract life. As a result, ATCO Pipelines received revenue under the primary term sufficient to offset the costs of connecting the customer, however the assets are not considered to be fully depreciated until the end of the second term of the contract.

109. In a letter dated April 21, 2017, the Commission requested that ATCO Pipelines file additional information in this proceeding to assess any associated rate impacts related to the removal of the Vermilion Receipt Lateral Pipeline that should be considered as part of ATCO Pipelines' 2017-2018 GRA. ATCO Pipelines filed this additional information as part of its responses to Commission IRs and advised that the contract associated with these dedicated assets was coming to the end of its second term. It further indicated that it had received revenues that equalled or exceeded the costs of the pipeline assets during the primary term of the contract and there remains negligible net book value associated with the facilities ($8,180 as at March 31, 2017). ATCO Pipelines stated that revenues beyond the primary term were for the benefit of the

[74] Exhibit 22011-X0166, ATCO Pipelines response to AP-AUC-2017APR21-030.

system. It also advised that the Vermilion Receipt Lateral Pipeline and associated facilities were not included in the 2017-2018 GRA's forecast of retirements and cost of removal.

110. The estimated cost to remove the 100-metre long 88.9-millimetre Vermilion Receipt is $156,000, which includes the abandonment of the tap on the main line and removal of the meter station. ATCO Pipelines seeks to have this removal treated as an ordinary retirement, which would entail a credit to the plant account (at historical cost), with the net negative salvage treated as a debit to cost of removal and a credit to cash.

111. The UCA submitted that these assets appear to meet the Commission's test for an extraordinary requirement, as discussed in the utility asset disposition (UAD) decision:[75]

> … obsolete property, property to be abandoned, overdeveloped property and more facilities than necessary for future needs, property used for non-utility purposes, property that should be removed because of circumstances including unusual casualties (fire, storm, flood, etc.), sudden and complete obsolescence, or un-expected and permanent shutdown of an entire operating assembly or plant.[76]

112. The UCA argued that as the pipeline appears to have become obsolete "suddenly" (ahead of schedule) and "completely" (based on a single producer's decision to stop flowing gas on it), it seems to meet the plain language definitions of those words. The fact that this asset was afforded accelerated depreciation is not relevant to the question of whether this retirement is extraordinary in and of itself. In the UCA's view, the primary question based on the UAD decision is the cause and nature of how an asset is retired, not its expected life. Nor should the fact that there remains negligible net book value bear on whether the retirement is extraordinary. Similarly, the timing of the retirement should not drive the type of retirement for regulatory purposes.[77]

113. ATCO Pipelines submitted that it does not consider that this retirement constitutes a "sudden and complete obsolescence" because the pipeline and associated facilities "were commissioned in 2009 as dedicated assets," dealt with through accelerated recovery through depreciation, leading to a "negligible net book value remaining." ATCO Pipelines noted that in Decision 2013-417, the Commission stated:

> 304. … The UCAGU [Uniform Classification of Accounts for Natural Gas Utilities] in Section 8 states that "ordinary retirements result from causes reasonably assumed to have been contemplated in prior depreciation provisions, and normally may be expected to occur when plant reaches the end of its expected service life." The UCAGU also makes provision for <u>"extraordinary retirements" defined as retirements "from causes not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions."</u> Under-recovery or over-recovery of capital investment on ordinary retirements are for the account of customers under the amortization of reserve differences described above….[78] (emphasis added)

114. ATCO Pipelines noted that dedicated assets, like the Vermilion Receipt Lateral Pipeline are depreciated at an accelerated rate, being two-times contract life because it is reasonable to

75 Decision 2013-417: Utility Asset Disposition, Proceeding 20, Application 1566373-1, November 26, 2013, paragraph 304.
76 Decision 2013-417, paragraph 327.
77 Exhibit 22011-X0183, UCA argument, paragraphs 122-123.
78 Decision 2013-417, paragraph 304.

assume that a dedicated single customer may disappear sooner than the customers utilizing and benefitting from general system assets. The use of accelerated depreciation clearly qualifies the retirement of these assets as normal course and does not meet the definition of an extraordinary retirement. The practice of depreciating dedicated assets over two times the contract life was approved for ATCO Pipelines in Decision 2001-97.[79] [80] Therefore, the UCA's recommendation that the Vermilion pipeline retirement be treated as extraordinary should be rejected. The accelerated depreciation was put in place for this very likelihood. Thus, the two-times contract life method "contemplated" such an event, e.g., the customer no longer requiring it for service. As the reasonable expectation for termination was contemplated, the retirement is rightfully deemed "ordinary."

Commission findings

115. The Commission's predecessor, the Alberta Energy and Utilities Board (board), approved the use of the contract life method for depreciating dedicated facilities in Decision 2000-9:[81]

> The Board generally agrees that the Company should not be at risk of having depreciation remaining to be collected for dedicated facilities, where the customer has not renewed its contract for the use of those facilities. The Board notes that the contract method proposed by the Company has been previously approved in a GRA for NUL [Northwestern Utilities Limited].
>
> The Board notes concerns that there could be a mismatch between depreciation and the amount collected from the customer being served. The Board notes also that the proposed methodology does not reflect the fact that contracts could be extended or renewed. The Board's primary concern, however, is that an adequate amount is being collected. The matching of revenues to expenses is a secondary concern to the Board. The Company submitted that its Investment Policy ensures that the present value of a customer's demand charge equals or exceeds the capital cost of the asset being constructed. Given this assurance from the Company, the Board considers that its primary concern has been met.[82]

116. The practice of depreciating dedicated assets over two times the contract life was subsequently approved for ATCO Pipelines in Decision 2001-97:

> With respect to the issue of depreciation of contract facilities, the Board in Decision 2000-9, stated that its primary concern is that an adequate amount is being collected from customers, and indicated that the matching of revenues to expenses is a secondary concern. The Board's primary concern is satisfied by the Company's assurances that its investment policy ensures that the present value of a customer's demand equals or exceeds the capital cost of the asset.
>
> However, the Board considers that ATCO's proposal to depreciate dedicated contract facilities, constructed in 2001 onwards over a period equal to twice the contract term recognizes that the majority of contracts extend beyond the term of the initial contract.

79 Decision 2001-97: ATCO Pipelines South, 2001/2002 General Rate Application, Phases I and II, Application 2000365, File 1306-3, December 12, 2001, page 72. Errata issued January 15, 2002.
80 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraphs 165-166.
81 Decision 2000-9: Canadian Western Natural Gas Company Limited, 1997 Return on Common Equity and Capital Structure, and 1998 General Rate Application – Phase 1, Applications 980413 and 980421, Files 1303-1 and 1304-1, March 2, 2000.
82 Decision 2000-09, page 117.

> The Board believes that this addresses concerns expressed by Calgary and other interveners in this regard in this and previous proceedings.[83]

117. In approving the use of dedicated asset contracts, the Alberta Energy and Utilities Board required that the present value of the demand component of the primary term of the customer's contract fully cover the costs of connecting the customer. The Commission relies on ATCO Pipelines' evidence that revenues equal to the costs of the assets were fully recovered in the initial term and that revenues beyond the primary term were for the benefit of the system.

118. Based on the evidence in this proceeding confirming that the Vermilion Receipt Lateral Pipeline and associated facilities were the subject of a dedicated assets contract which contemplated that the customer's contract demand produced revenues equal to or greater than the capital cost of the asset serving that customer and importantly, that the total costs of these facilities have indeed been recovered from the customer, the Commission does not consider that in these circumstances, the removal of these facilities should be accounted for as an extraordinary retirement as contemplated in the UAD decision, as upheld by the Court of Appeal in *FortisAlberta Inc v Alberta (Utilities Commission)*, 2014 ABCA 264. Accordingly, the retirement should be considered as an ordinary retirement. The Commission notes, however, that the finding of an "ordinary" or an "extraordinary" retirement is fact dependent.

4.2.7 IT projects and related costs

119. Included in opening rate base are capital additions for several Information Technology (IT) projects related to asset management, namely Geographic Information System (GIS) Data Improvements, GIS Lifecycle Management, GIS Third Party Viewer Implementation, Capital and O&M Budgeting, Planning and Forecasting System (Hyperion), Maintenance Management System (MMS) Enhancements and Pipeline Integrity Management System (PIMS) Enhancements. These projects were removed from ATCO Pipelines' 2015-2016 GRA in response to a Commission's direction which found that the projects were not adequately justified.[84] In response, ATCO Pipelines has provided business cases for all IT projects associated with asset management. ATCO Pipelines stated that it has included these expenditures as the projects were critical to the operation of its pipeline system and compliance with CSA Z662-15.[85] The requested additions specific to these projects are shown in the table below:

83 Decision 2001-97, page 72.
84 Decision 3577-D01-2016, paragraphs 239-241.
85 Exhibit 22011-X0005, application, Section 1.5, PDF page 56.

Table 9. Asset management related IT projects requested to be added to opening rate base

Project name	2015 forecast	2016 forecast
	($000)	
GIS Data Improvements	405	95
GIS Lifecycle Management	242	8
GIS Third Party Viewer Implementation	46	50
Capital and O&M Budgeting, Planning and Forecasting System (Hyperion)	782	523
MMS Enhancements	276	210
PIMS Enhancements	126	144
Total opening rate base capital additions	**1,877**	**1,030**

Source: Table was created from business cases found in Exhibit 22011-X0009, PDF pages 178-204.

120. A breakdown of ATCO Pipelines' forecast IT project expenditures are provided in the table below.

Table 10. IT project expenditures

Description	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)			
Large projects (>$500)				
MMS Enhancements	0	0	700	650
GIS Replacement	0	200	750	100
Budgeting & Planning Solution	782	522	0	
PIMS Implementation	311	4	0	
Subtotal large projects	**1,093**	**726**	**1,450**	**750**
Lifecycle management				
GIS Lifecycle Management	242	8		
General	159	581	133	303
Subtotal lifecycle management	**401**	**589**	**133**	**303**
Enhancements				
PIMS Enhancements	126	144		
GIS Third Party Viewer Implementation	46	50		
GIS Data Improvements	405	95		
MMS Enhancements	276	210		
General	441	650	700	565
Subtotal enhancements	**1,294**	**1,149**	**700**	**565**
General enterprise projects				
General	271	552	726	645
Subtotal enterprise projects	**271**	**552**	**726**	**645**
TOTAL IT projects	**3,059**	**3,016**	**3,009**	**2,263**

Source; Exhibit 22011-X0005, application, Table 2.3.5-1 IT Project Expenditures, PDF page 89.

121. In Decision 3577-D01-2016, the Commission directed the removal of certain IT projects related to asset management from the 2015-2016 test years stating:

> 239. … a more detailed explanation of the GIS, PIMS and MMS enhancements is required….
>
> 240. In respect of both Hyperion and Maximo Phase 2, the Commission agreed with Calgary that AP has failed to adequately quantify any benefits associated with the significant capital costs of both projects….”[86]

122. In the current application, ATCO Pipelines filed business cases to justify the inclusion of disallowed 2015-2016 IT project capital expenditures in 2017 opening rate base. For 2017–2018 test period, ATCO Pipelines forecast two IT projects for 2017-2018, MMS Enhancements – and GIS replacement.

123. In the International Organization for Standardization (ISO) – International Standards ISO 55001 assessment report provided in response to an IR, the report noted that an IT roadmap for the next five years had been developed but there is no existing overarching IT strategy, though one is currently in development at the ATCO Group level. The asset management projects (GIS, Maximo, MMS, MARS, Hyperion) were included in the 2016 to 2020 timeline IT roadmap.[87]

124. Calgary noted that the total forecast IT expenditures for the 2017-2018 test years is $17.2 million and that ATCO Pipelines has requested $3.0 million be added to opening 2017 rate base for 2015-2016 IT projects that were disallowed in Decision 3577-D01-2016. Of the $3.0 million, $1.7 million are for IT projects that support Asset Management. ATCO Pipelines has requested $5.3 million in capital for 2017-2018 total IT project expenditures. Calgary argued that recovery of these amounts should be denied or reduced because:

- ATCO Pipelines has not discharged its onus that the requested cost increases it seeks to recover in rates are just and reasonable, as required under the *Gas Utilities Act* (GUA);
- Each of ATCO Pipelines’ 2015-2016 and 2017-2018 IT projects either outright lack Business Cases to support them, or where Business Cases have been filed, they are not adequate because they lack cost/benefit analyses, including a measurable or quantified benefit
  - Although ATCO Pipelines’ Wipro [Wipro Solutions Canada Limited] MSA [master services agreement] provides for global services, the Application does not properly use or optimize *global* labour IT project resources, which if used by ATCO Pipelines, would likely impact both IT volumes and pricing, both of which would lower overall costs to Customers.[88]

125. Calgary recommended that the Commission:

- Direct ATCO Pipelines to provide a comprehensive business case treating all IT projects that support Asset Management as a single project in its next GRA, including a cost/benefit analysis of future cost requirements.

[86] Decision 3577-D01-2016, paragraphs 239-240.
[87] Exhibit 22011-X0047, AP-AUC-2016NOV18-010(a) Attachment 2, PDF page 205.
[88] Exhibit 22011-X0176.01, Calgary argument, PDF pages 6-7.

- Place an increased emphasis on cost/benefit analyses or a NPVCOS over the project life as required in Decision 2000-9 and Decision 3577-D01-2016 in the IT Business Cases in order to ensure Operational Efficiency.
- Disallow ATCO Pipelines' request to add $3.0 million to opening 2017 rate base for 2015-2016 IT projects that were disallowed in Decision 3577-D01-2016.
- Disallow $1.35 million in capital for the 2017-2018 MMS Enhancements project.
- Disallow $1.05 million the MARS and PIMS Enhancement projects for failure to provide supporting business cases above the $500,000 threshold.
- Reduce IT capital volumes by removing the Wipro volumes associated with the MMS Enhancement, MARS Enhancements, and PIMS Enhancements projects.
- Order ATCO Pipelines to file a strategy document in its next GRA that provides the steps ATCO Pipelines will take to pursue the proper use and optimization of the Wipro global project delivery capability and realize the resultant reduced IT resource costs on IT projects.
- Direct ATCO Pipelines to file detailed IT volumes in future GRAs consistent with the level of detail provided in Section 4.2.5 of the application, and Direction 18.[89]

126. Calgary submitted that the Supreme Court of Canada determined that any presumption of prudence which may otherwise be afforded to a utility cannot overcome the statutory burden:

> Regarding a presumption of prudence, s. 44 (3) of the GUA stipulates that the utility has the burden to establish that the rates are just and reasonable.[90]

127. Calgary argued that the evidence filed by ATCO Pipelines in this proceeding to support the requested IT project expenditures, many associated with disallowed and new asset management IT projects, fails to provide the Commission with adequate reasons to approve many IT project expenditures. ATCO Pipelines has not discharged it onus under legislation.[91]

128. ATCO Pipelines submitted that Calgary's referenced total forecast ATCO Pipelines IT spend of $17.2 million in the 2017-2018 test years for revenue requirement is incorrect. For the test years, ATCO Pipelines has forecast $8.6 million of IT operating costs and $8.6 million of IT capital. All IT projects are required to ensure safety and reliability of service. ATCO Pipelines submitted that the level of information provided in the current GRA on these IT projects is substantial and responsive to previous guidance received from the Commission.

4.2.7.1 Business case criteria

129. In Decision 3577-D01-2016, the Commission considered the positions of the interveners and the applicant regarding changes to the criteria set out in Decision 2000-9:[92]

> The Board [Alberta Energy and Utilities Board] reiterates its concern over the manner in which CWNG [Canadian Western Natural Gas Company Limited] provided information to both customers and the Board in this proceeding. Stakeholders of CWNG require sufficient

89 Exhibit 22011-X0176.01, Calgary argument, PDF pages 7-8.
90 *ATCO Gas and Pipelines Ltd.* v. *Alberta (Utilities Commission)*, 2015 SCC 45, per Rothstein J. at paragraph 45.
91 Exhibit 22011-X0176.01 Calgary argument, PDF page 8.
92 Decision 2000-9, page 32.

> detail in their analyses of projects and expenditures. The Board has always required, and continues to require, the following information for all major capital projects:
>
> - a detailed justification including demand, energy, and supply information;
> - a breakdown of the proposed cost;
> - the options considered and their economics; and
> - the need for the project.
>
> The Board will expect the information above, provided in sufficient detail, in all future filings.

130. In Decision 3577-D01-2016, the Commission provided further discussion and clarification on the above quote from Decision 2000-9 and its four bullets:

> 91. The Commission considers that the information to be provided, as directed in Decision 2000-9, requires further discussion based on submissions on the record. The findings in Decision 2000-9 for Canadian Western Natural Gas are equally applicable to ATCO Pipelines' business cases. Given the unique arrangement of ATCO Pipelines with NGTL, and the fact that the revenue requirement is recovered through NGTL, the Commission is of the view that it would be instructive to provide some further comment on Decision 2000-9 and ATCO Pipelines' business cases.
>
> 92. First, with respect to "a detailed justification including demand, energy and supply information," the information in the business cases should include a detailed description of the project, a discussion of the overall requirement for the project, how the project fits into the existing infrastructure and/or operations and any drivers of the project, which may include economics or safety considerations. Where appropriate, a discussion of the demand, energy and supply information should be included.
>
> 93. With respect to the second bullet, "a breakdown of the proposed cost," all projects require an estimate of the capital costs that are proposed to be included in the rate base, and the reasons for the proposed expenditures. The costs should be presented for each year the project is under development or construction until it is added to rate base. New operational expenses, if any, should be estimated if the project is put into rate base before the end of the test period.
>
> 94. The third bullet relates to "the options considered and their economics" and should describe the options and alternatives examined. For each alternative, any economic considerations should be provided to support the cost-benefit analysis of the preferred alternative, such that it is clear why the preferred alternative is supported i.e. the rationale for the preferred alternative. For example, a comparison of the cumulative net present value of the revenue requirement, also sometimes referred to as cumulative net present value of cost of service, or cumulative NPVCOS [net present value cost of service], over at least 10 years should be provided as an economic measure in order to assess the alternatives.
>
> 95. The fourth bullet, "the need for the project" should include the rationale of need for the project as outlined under Rule 020, but should also include information as to the

> growth, replacement, improvement, safety, quality of service, or some combination thereof, and the reasonable timing of the project.[93]

131. Calgary recommended that the Commission change the wording in the last sentence in the second bullet by removing all words after "estimated," so that the sentence reads: "New operational expenses, if any, should be estimated." Without estimated operational expenses, it is not possible to complete bullet three.[94]

132. Further, a number of recent Commission decisions[95] have highlighted the need for a cost/benefit analysis in a business case, when reviewing utility expenditures for inclusion in rates. Calgary submitted that no IT business case contains a section that provides a cost/benefit analysis or a NPVCOS over the project life as required to meet Decision 2000-9 and Decision 3577-D01-2016. Instead, ATCO Pipelines provided a "Qualitative Considerations – Comparison of Each Option" section for all eight projects (six for 2015-2016 and two for 2017-2018) using six factors (cost, data integrity, integration complexity, vendor support, ease to manage enhancements, business disruption) to score the alternatives. Calgary argued that the qualitative comparisons in the IT business cases do not meet the Commission requirement outlined above for bullet three. Calgary recommended the Commission place an increased emphasis on cost/benefit analyses in the IT business cases it reviews in order to ensure operational efficiency.[96]

133. In reply argument, ATCO Pipelines noted that, contrary to Calgary's repeated assertions that ATCO Pipelines has not provided any cost-benefit analysis, ATCO Pipelines has quantified each business case through its comparative analysis, which scores such criteria to increase the transparency into ATCO Pipelines' decision-making process. ATCO Pipelines submitted that it did not quantify cost savings for the qualitative criteria in terms of dollar amounts because such an exercise would be too subjective and less helpful to parties than ATCO Pipelines' scoring approach.[97] Furthermore, ATCO Pipelines argued that it provided, in the application, the "technology principles" it uses when evaluating IT capital projects to give parties insight into the principles ATCO Pipelines uses in reviewing IT options.

Commission findings

134. The Commission considers that the intent of the discussion of Bullet 2 in Decision 3577-D01-2016 was to provide further clarity around the cost information to be included in a business case based on the initial criteria communicated in Decision 2000-9. In essence, the Commission considers that any proposed capital project should provide a complete picture of both capital and operating expenses resulting from the forecasted project. As such, the Commission considers Calgary's recommended change to the wording in the last sentence to now only include "New operational expenses, if any, should be estimated" reflects the intent of the criteria established in Decision 2000-9. Applicants should include a breakdown of all estimated costs (capital and

93 Decision 3577-D01-2016, paragraphs 91-95.
94 Exhibit 22011-X0176.01, Calgary argument, paragraph 39.
95 Decision 3218-D01-2015: ATCO Electric Ltd., 2013 PBR Capital Tracker Refiling and True-Up and 2014-2015 PBR Capital Tracker Forecast, Proceeding 3218, Application 1610569-1, March 15, 2015, paragraph 186; Decision 2014-169 (Errata), ATCO Utilities 2010 Evergreen Application, Proceeding 240, Application 1605338-1, February 6, 2015, paragraph 254; and Decision 2012-091, AltaGas Utilities Inc., 2010-2012 General Rate Application – Phase I, Proceeding 904, Application 1606694-1, April 9, 2012, paragraph 80.
96 Exhibit 22011-X0176.01, Calgary argument, paragraphs 40-45.
97 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraphs 174-175.

operational expenses) so that the Commission and parties can conduct a more fulsome cost-benefit analysis of the options considered in a business case.

135. However, the Commission finds that while the economic considerations section of ATCO Pipelines' business cases does not contain a typical cost/benefit analysis, it does provide an evaluation of all the factors used by ATCO Pipelines to determine which alternative would be optimal to address its needs. This evaluation does consider the project costs and benefits, among other factors. The Commission understands that while a cost/benefit analysis alone is helpful in evaluating project alternatives and the long term costs of a project, it also understands that ATCO Pipelines must balance the short- and long-term costs and benefits with other considerations. For this reason, the Commission will not direct ATCO Pipelines to provide a cost/benefit analysis similar to that requested by Calgary.

4.2.7.2 2015-2016 disallowed IT projects

136. In argument, ATCO Pipelines explained the key drivers of the 2015-2016 IT projects as follows:

- GIS Lifecycle Maintenance – This version upgrade of the G/Technology software ensures ATCO Pipelines has ongoing support from the vendor and a stable environment and record currency required for pipeline system operations, and is in alignment with ATCO Pipelines' Technology Principle of ensuring vendor support of its commercial off the shelf software.

- GIS Data Improvements – Improvements required to incorporate additional data attributes from paper based records. This additional information will support ATCO Pipelines to assess pipeline risk accurately based upon data requirement of the PIMS risk analysis.

- GIS Third Party Viewer Implementation – Required enhancements enable the ability to read and write newer data formats required to import the Asset Swap data from NGTL; and introduce a comprehensive viewer to display additional data points, enhance labeling, and add functionality to search and report GIS data coming from NGTL.

- PIMS Enhancements – As per CSA Z662-15, Section 10.7.6, ATCO Pipelines is required to inspect its pipeline system annually to determine if any changes in class location have occurred. The PIMS Enhancements project completes this class location review in a digital format and incorporates the data into the PIMS risk analysis algorithm.

- Budgeting & Planning Solution (Hyperion) – ATCO Pipelines' replacement of existing Microsoft Office based models that are used for planning, forecasting, and reporting O&M and Capital costs. The primary business drivers are: improve data integrity and security, increase flexibility and efficiency, and ensure system sustainability.[98]

137. Calgary noted the following 2015-2016 IT projects that ATCO Pipelines has requested be added to the 2017 opening rate base:[99]

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98 Exhibit 22011-X0178, ATCO Pipelines argument, PDF page 17.
99 Exhibit 22011-X0176.01, Calgary argument, PDF page 19.

Table 11. 2015-2016 IT projects requested to be added to opening 2017 rate base

	2015-2016 IT project capital	
	2015 estimate	**2016 estimate**
	($000)	
Description		
Budgeting & Planning Solution	782	522
PIMS Implementation	311	4
GIS Lifecycle Management	242	8
GIS Third Party Viewer Implementation	46	50
GIS Data Improvements	405	95
PIMS Enhancements		
MMS Enhancements	276	210
Totals	**2062**	**889**
Cumulative 2015-2016		**2951**

138. Calgary also noted that 2015-2016 project costs exceeded status quo alternative costs by $1.0 million. Calgary maintained that:

- The Budgeting & Planning (Hyperion) business case showed that the status quo option was $0.6 million cheaper than installing the new Hyperion system despite the forecast savings on three full-time equivalents (FTEs), and therefore, the project should be denied for inclusion in 2017 rate base.
- The GIS Lifecycle, Third Party Viewer and Data Improvements business cases included qualitative comparisons. It also appeared that in 2015, "AP was aware that ESRI [Environmental Systems Research Institute, Inc.] GIS has become the clear pipeline industry leader, offering greater current and future flexibility" and another $0.846 million over 2015-2016 to ensure the software and data were more current was not warranted. These projects should be rejected and not allowed in 2017 rate base.
- PIMS Enhancements business case includes qualitative comparisons that indicated that there was $40,000 saving every five years for class verifications. As the project and status quo have similar costs, the investment will likely not be paid back in its life cycle.
- MMS Enhancements business includes a qualitative comparisons section showed that the project resulted in costs savings of three FTEs but was still more $0.2 million more expensive than the status quo option, and as a result the project should be denied and not allowed in 2017 rate base.[100]

139. Calgary argued that ATCO Pipelines has not met its burden of proof to show these IT projects are just and reasonable and should be denied for inclusion in 2017 opening rate base as costs exceed benefits. Further, ATCO Pipelines has not met the business criteria outlined in Decision 2000-9 and Decision 3577-D01-2016 because it has failed to include a cost/benefit analysis in its business cases.[101]

[100] Exhibit 22011-X0176.01, Calgary argument, paragraph 58.
[101] Exhibit 22011-X0176.01, Calgary argument, paragraph 59.

140. ATCO Pipelines argued that its decision to proceed with the Hyperion Budgeting and Planning project was clearly articulated within the Budgeting and Planning (Hyperion) Business Case. ATCO Pipelines used a combination of internally developed tools to support its short-term financial budgeting and longer-term planning and forecasting requirements. Prior to its investment in Hyperion, ATCO Pipelines used internally developed processes including both Access databases and Excel models. The collection of internally developed Access databases and Excel models used for the planning, forecasting, and reporting of both O&M and Capital costs are disparate, inefficient, labor intensive, and unsupported. Furthermore, both the volume of data and the frequency of changes made create considerable risk surrounding system reliability and performance.[102]

141. ATCO Pipelines noted that Calgary stated that costs for the GIS Lifecycle, Third Party Viewer and Data Enhancements (GIS Enhancements) should be rejected and not allowed in 2017 rate base.[103] ATCO Pipelines argued that Calgary incorrectly states that since ATCO Pipelines was aware of ESRI's GIS market dominance in 2015, investment in its data integrity and third-party viewer was unnecessary. Improving the accuracy, quality and completeness of its transmission system data is a fundamental responsibility of ATCO Pipelines as an Alberta transmission system operator, and a necessary investment regardless of GIS application. The fact that ATCO Pipelines' ERSI GIS application can be populated with more accurate data from the legacy Intergraph GIS application as part of its new GIS implementation enables ATCO Pipelines to improve the safety and reliability of its operations with a superior GIS application, greater functionality and better quality data. ATCO Pipelines' Third Party Viewer is not part of the Intergraph product and can continue to enable field operators a simpler user interface to its GIS application for more efficient field operations regardless of the back-end application providing GIS related data and functionality. Since neither past investment in improved data integrity or ATCO Pipelines' Third Party Viewer will be eliminated by replacing Intergraph GIS with ESRI GIS, Calgary's argument related to the disallowance of costs is not valid.[104]

PIMS Enhancements

142. While Calgary acknowledged the cost savings from implementing enhancements to its Pipeline Integrity Management system, ATCO Pipelines asserted that Calgary failed to acknowledge several other key business drivers of the PIMS Enhancements project. These include:

- Improving risk ranking accuracy through incorporating additional data attributes that are available for the risk algorithm;
- Leveraging new features and functionality provided through a vendor upgrade of ATCO Pipelines' PIMS as part of ongoing Application Lifecycle Management;
- Further access to historical system data through digitization of paper
- Enhancing identification of areas of class change for updating AP records and compliance with CSA Z662-15 Clause N.5.1 "Integrity Management Program Records" through AP structure digitization;
- Assessing pipelines risk in a repeatable and verifiable method.[105]

102 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraphs 184-185.
103 Exhibit 22011-X0176.01, Calgary argument, paragraph 58, second bullet.
104 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 189.
105 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 192.

143. ATCO Pipelines stated that it used seven qualitative considerations to further illustrate its decision-making criterion which demonstrated that the investment in PIMS Enhancements was superior to other alternatives identified, including status quo.

MMS Enhancements

144. Calgary stated that costs for the MMS Enhancements should be rejected and not allowed in 2017 rate base. ATCO Pipelines explained that the following business requirements were addressed by the MMS Enhancements:

- Develop end-to-end leak management and reporting capability in MMS – Alberta Energy Regulator (AER) reporting, Appendix H reporting, Z662 documentation & records management need to maintain controlled records (date stamping, audit ability);
- Improve reporting, tracking and audit record for boiler and pressure vessel inspections – subject to ABSA requirements and auditing findings expected in 2016, ensure boilers and pressure vessels are inspected and reported to these standards.
- Improve the MMS mobile application to increase the ability of field staff to enter and view inspection and maintenance data asset information.[106]

145. In this proceeding, ATCO Pipelines argued that it has provided individual business cases providing justification for each of the 2015-2018 activity for these projects. ATCO Pipelines is rightfully seeking technological improvements to its IT systems to support itself in the management of its assets. To do otherwise would not be prudent.

146. With respect to IT Volumes, ATCO Pipelines disagreed with Calgary's position that the MMS, MARS, and PIMS related IT capital volumes should be removed, nor should their associated Wipro volumes be removed.

GIS projects

147. ATCO Pipelines requested that three GIS projects, which were completed in 2015-2016, be added to opening rate base. These projects are the GIS Data Improvements, GIS Lifecycle Management and the GIS Third Party Viewer Implementation. ATCO Pipelines provided business cases for each of the projects in Attachment 7.3 to the application.[107] The business cases included a description of the work completed, the project need and drivers, how the projects fits into existing infrastructure/operations/program, a breakdown of the costs, an analysis of the alternatives considered and the rationale for the alternative selected.

148. The GIS Data Improvements project was required to improve functionality of the GIS system and included the following activities:

- Perform quality assurance verification on existing data values within the GIS;
- Add new data attributes to include more information on each pipeline segment, such as cathodic protection information; and

106 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 197.
107 Exhibit 22011-X0009, 7.3 Attachments, PDF pages 169-186.

- Automate a redline creation and verification process that will enable scanned historical records to be incorporated into digitized GIS data.[108]

149. The GIS Lifecycle Management project was an upgrade of the Intergraph G/Technology GIS system and the GeoMedia program to newer versions to ensure continued vendor support and to give ATCO Pipelines the ability to read newer data formats received from third-party surveyors.[109] In the business case, ATCO Pipelines evaluated the alternative of a system replacement to ESRI GIS and considered that the replacement would require significant investment and time implement and therefore it did not give the alternative further consideration.[110]

150. The GIS Third Party Viewer Implementation project was described as being required due to the current Intergraph GIS viewer not being user-friendly and not easily configurable. Additionally, ATCO Pipelines noted that its existing GIS was not capable of integrating the new NGTL data without a significant manual process and the upgraded third viewer would enable the efficient integration of the new NGTL data.[111]

151. In response to an IR, ATCO Pipelines noted that the GIS projects began in 2010 with a project to implement a GIS system and add additional attributes on its assets (wall thickness, seam type, length, license number, class location, material specifications, etc.) to electronic maps. The continuing GIS projects improve data quality and improve ATCO Pipelines' ability to run more detailed risk analysis and therefore improve ATCO Pipelines' ability to maintain compliance with regulations and to evaluate capital and O&M expenditures. ATCO Pipelines further noted that data enhancements and the third party viewer upgrade can be transferred to a new GIS system. ATCO Pipelines also provided a breakdown of the upgrade and enhancement costs to date allocated to the Intergraph G/Technology GIS solution, which is reproduced below.[112]

Table 12. Intergraph G/Technology GIS project expenditures

	2012	2013	2014	2015	2016 estimate
System upgrades	309,375	1,184	129,800	242,000	8,000
Data improvements	144,002	76,780	388,222	405,000	95,000
Third Party Viewer				46,000	50,000
Total	**453,377**	**77,964**	**518,022**	**693,000**	**153,000**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-021(a).

152. ATCO Pipelines explained that in 2014, when the 2015-21016 GRA was being prepared, the GIS projects included in the GRA were chosen as the best option at the time; it was only by the end of 2015 that Intergraph had begun focusing on public safety solutions and ESRI began to outperform Intergraph in GIS technology. At that time, vendor support for the Intergraph GIS program was not a priority for the vendor and ATCO Pipelines made the decision to replace its

108 Exhibit 22011-X0009, 7.3 Attachment, GIS data improvements (2015-2016) business case, PDF page 169.
109 Exhibit 22011-X0009, 7.3 Attachment, GIS lifecycle management (2015-2016) business case, PDF page 175.
110 Exhibit 22011-X0009, 7.3 Attachment, GIS lifecycle management (2015-2016) business case, PDF pages 178-179.
111 Exhibit 22011-X0009, 7.3 Attachment, GIS third party viewer implementation (2015-2016), PDF page 182.
112 Exhibit 22011-X0047, AP-AUC-2016NOV18-021(a), PDF page 308.

GIS system with a custom-off-the-shelf solution from ESRI.[113] Scoping for a replacement solution to Intergraph began in 2016 and are included in the current application as part of the GIS replacement (2017-2018) project costs.[114]

Capital and O&M Budgeting, Planning and Forecasting System (Hyperion)

153. In the project need and drivers section of the business case provided in Attachment 7.3 to the application, ATCO Pipelines indicted that it uses a combination of internally developed tools for its short-term financial budgeting and longer term planning and forecasting requirements. The internally developed tools include Access databases and Excel models which are highly labour intensive and are highly complex with more than 100 spreadsheets required to achieve ATCO Pipelines' forecasting and modeling requirements. ATCO Pipelines stated the current model creates considerable risk surrounding system reliability and performance, due to the risk of human error in manual processes. Errors in the data can result in forecasts that are outdate or not fully informed.

154. ATCO Pipelines evaluated three alternatives (maintain status quo, implement Hyperion and implement an in-house custom solution) and identified Hyperion as the best option. ATCO Pipelines noted that the Oracle Hyperion solution has been implemented and utilized by other ATCO companies and that it easily integrates into ATCO Pipelines' current platforms for resource planning and financials, which are key inputs into budgeting and planning functions.[115] ATCO Pipelines estimated that implementing Hyperion would result in annual O&M savings of approximately $200,000 compared to the status quo.[116]

Commission findings

155. The Commission finds that the identified 2015-2016 IT capital projects that were denied in Decision 3577-D01-2016 and are now requested to be allowed in 2017 opening were chosen based on scoring considerations which took into consideration cost, but also other criteria such as data integrity, integration complexity, vendor support, business disruption, and ease of integrating projects.

156. The Commission notes that GIS replacement was considered as early as 2014 and was dismissed as it was the highest cost alternative evaluated. ATCO Pipelines is now requesting approval to replace its existing GIS system with the ESRI (which is addressed in Section 4.2.7.4), the current industry leader. The Commission is concerned with ATCO Pipelines' decision to proceed with Intergraph G/Technology upgrades and data enhancements when significant costs had been expended on the Intergraph G/Technology program in the previous four years and when ATCO Pipelines had already identified a complete GIS system replacement as an alternative to address the deficiencies found with the existing GIS system. Furthermore, as ATCO Pipelines did not have an overarching IT strategy; deficiencies appear to be addressed as they arise without consideration for a long-term solution. The Commission finds that the evidence on the record suggests that ATCO Pipelines did not give sufficient consideration to the available alternatives to the GIS projects when the 2015-2016 GRA was being prepared in 2014. The Commission notes that issues were raised by participants throughout the 2015-2016 GRA

[113] Exhibit 22011-X0047, AP-AUC-2016NOV18-021(d), PDF page 309.
[114] Exhibit 22011-X0047, AP-AUC-2016NOV18-022(a-b), PDF page 312.
[115] Exhibit 22011-X0009, 7.3 Attachment, capital and O&M budgeting, planning and forecasting system (2015-2016) business case, PDF pages 187-192.
[116] Exhibit 22011-X0047, AP-AUC-2016NOV18-030(a), PDF page 339.

proceeding with respect to the GIS projects and, by late 2015 ATCO Pipelines itself identified that Intergraph was no longer the preferred GIS vendor, but nonetheless, ATCO Pipelines proceeded to complete the 2015-2016 GIS projects. The Commission cannot find that ATCO Pipelines' decisions in this case were reasonable and therefore cannot approve the 2015-2016 GIS projects for inclusion in opening rate base. ATCO Pipelines is directed to remove the applied-for capital addition amounts for the GIS Data Enhancement, GIS Lifecycle Management and the GIS Third Party Viewer Implementation projects from opening rate base.

157. With respect to the Hyperion capital project, the Commission notes that ATCO Pipelines has stated that the project enhances the planning and budgeting processes across the organization through a centralized system which reduces the cumbersome use of multiple IT system to forecast O&M and capital requirements within a single source system thereby reducing the potential risk of error. The Commission accepts the need for a centralized system which has vendor support, which minimizes the risk of human error and which ensures data security. The Commission notes that ATCO Pipelines estimated annual O&M savings of $200,000 for the Hyperion solution, as compared to the status quo and that the cost comparison in the business case was done on the basis of a seven-year net present value calculation. The Commission considers that seven years could understate the long-term benefits of implementing Hyperion and therefore cannot accept Calgary's recommendation that the costs for Hyperion be denied on the basis that they are higher than the costs for maintaining the status quo. Accordingly, the Commission approves the applied-for capital additions for the Hyperion project to be included in opening rate base.

158. Finally, the Commission finds that the MMS Enhancements and PIMS Enhancements improve ATCO Pipelines' inspection process and its ability to manage its pipeline risk, with only a small difference in costs compared with maintaining the status quo. The Commission approves the inclusion of the MMS Enhancements, PIMS Implementation and PIMS Enhancements IT projects into opening rate base on the basis that these projects improved the integration of various data systems which reduces potential errors while enhancing ATCO Pipelines' ability to manage its assets, improve its ability to locate risk, identify integrity concerns, and provide a more integrated approach to forecasting capital and O&M matters.

159. Based on the findings above, where certain IT projects are denied, the Commission directs that ATCO Pipelines make any necessary adjustments to Wipro IT volumes in the compliance filing.

4.2.7.3 Asset management

160. Calgary noted that ATCO Electric Transmission is also in the process of implementing several IT projects that support Asset Management.[117] In Decision 20272-D01-2016, the Commission directed ATCO Electric Transmission to:

> 1156. Given ATCO Electric's description of asset management in the business case for project 82660 and how it should integrate with MAXIMO, CROW, Oracle, MOPS and GIS information systems, **the Commission is of the view that a comprehensive business case treating all these components as a single project is required.** This business case should itemize all the work required, including any necessary enhancements or upgrades to the various IT systems on an historical and go-forward basis. This business case should also provide a cost/benefit analysis with a clear

[117] Exhibit 22011-X0176.01, Calgary argument, paragraph 54.

> description of future cost requirements including as much of the life cycle as can reasonably be anticipated. **ATCO Electric is directed to provide such a business case in its next GTA [general tariff application]**.[118] [emphasis added]

161. Calgary recommended the Commission direct ATCO Pipelines to provide a comprehensive business case treating all IT projects (GIS, MMS or Maximo, PIMS, Oracle e-Business) that support asset management as a single project in its next GRA, including a cost/benefit analysis of future cost requirements.[119]

162. The CCA agreed with Calgary that ATCO Pipelines should file a consolidated asset management business case for projects previously disallowed in 3577-D01-2016 in its next GRA.[120]

163. ATCO Pipelines argued that the 2015-2016 IT projects are required by ATCO Pipelines to manage assets in the normal course as a foundational aspect of ATCO Pipelines' business and have been since ATCO Pipelines began installing assets. ATCO Pipelines argued that there is no justification to file a single asset management business case in the next GRA as justification of each project has been provided in individual business cases.

Commission findings

164. The Commission has set out its findings with respect to the sufficiency of ATCO Pipelines' business cases in Section 4.2.7.1 above.

165. The Commission has set out its findings with respect to the individual asset management IT projects in Section 4.2.7.2 above.

166. The Commission finds that the 2015-2016 IT capital projects focus on improving ATCO Pipelines' management of its assets, as opposed to meeting certain requirements to comply with ISO 55001. In Decision 3577-D01-2016 the Commission found that, while ATCO Pipelines defined the GIS, PIMS and MMS Enhancement projects as discrete projects, the Commission considered that the projects were all related to improving ATCO Pipelines' asset management and that the cumulative costs of the projects may exceed the minimum business case requirement of $500,000.[121]The Commission continues to consider that projects which are directly interrelated should be presented in a single comprehensive business case and directs ATCO Pipelines to identify projects that may be integrated in future GRAs, especially as it pertains to asset management.

4.2.7.4 2017-2018 IT capital expenditures

167. ATCO Pipelines explained that the MMS is the enterprise wide central repository for pipeline and facility maintenance data which improves ATCO Pipelines' ability to plan and coordinate maintenance activities in a centralized repository, while simultaneously improving the ability to identify and control safety hazards. The initial implementation of MMS was in 2013. The enhancements project is required to automate the Management of Change (MOC) process, provide continuous improvement and quality assurance, and ensure pipeline system records are

118 Decision 20272-D01-2016: ATCO Electric Ltd., 2015-2017 Transmission General Tariff Application, Proceeding 20272, August 22, 2016, paragraph 1156.
119 Exhibit 22011-X0176.01, Calgary argument, paragraph 55.
120 Exhibit 22011-X0189, CCA reply argument, paragraph 5.
121 Decision 3577-D01-2016, paragraphs 239-240.

managed consistently and effectively as required by the CSA Z662-15 standard, specifically the life cycle operation and maintenance of the pipeline system. The total project cost is estimated to be $1,350,000 of capital costs ($700,000 in 2017 and $650,000 in 2018), with no associated operating costs. The project is forecast to be in service in 2018.[122]

168. The GIS Replacement (ESRI GIS) solution addresses the requirements presented in the business case including, but not limited to, ATCO Pipelines' obligation for adherence to CSA Z662-15 Annex N.5 "Integrity Management Program Records" through the ability to access historical changes and edits made within GIS with a commercial off the shelf product.[123] The total project cost of the GIS Replacement is estimated to be $1,050,000 ($200,000 in 2016, $750,000 in 2017, and $100,000 in 2018). The forecast in-service date is 2017.[124]

169. Calgary submitted that the GIS Replacement project is justified because the business case identifies and quantifies benefits that show its seven-year life cycle costs are $0.7 million below that of the status quo. However, the MMS Enhancement project total costs exceed the status quo costs by $0.65 million. Staying with the status quo alternative would require one additional administrative resource per year required to comply with CSA Z662-15 and included as a cost for the status quo. Despite the savings, the status quo is $0.65 million less costly than the proposed MMS Enhancements project. The project has not quantified benefits that exceed costs and the Commission should disallow $1.35 million in capital for the large 2017-2018 MMS Enhancements project. ATCO has not met its burden of proof that shows the project costs are just and reasonable.[125]

Commission findings

170. The Commission is satisfied that ATCO Pipelines has adequately justified its GIS Replacement project based on its cost/benefit analysis that shows benefits exceed costs by $0.7 million. ATCO Pipelines' forecast GIS Replacement capital expenditures are approved as filed.

171. Although, the 2017-2018 MMS Enhancement project may assist ATCO Pipelines in planning and coordinating maintenance activities in a centralized repository, the Commission agrees with Calgary that ATCO Pipelines has failed to quantify the benefits of the project and note that the project exceeds the status quo costs by $0.65 million. ATCO Pipelines is therefore directed to remove the proposed MMS Enhancements project from its 2017-2018 IT capital expenditures and revenue requirement forecasts.

4.2.7.5 Offshoring

172. Calgary argued that ATCO Pipelines is not taking full advantage of the potential costs savings from the use of offshoring provisions for IT projects under the Wipro MSAs. The use of offshore capital project resource volumes is three per cent in 2017 and eight per cent in 2018. In Decision 3577-D01-2016, the Commission declined to consider the impact of rates associated with ATCO Pipeline's use of offshoring, noting that "there is insufficient evidence on the record of this proceeding to evaluate the impact of offshoring on IT volumes or pricing." Calgary recommended that the Commission order ATCO Pipelines to file a strategy document in its next GRA that provides the steps ATCO Pipelines will take to pursue the proper use and optimization

[122] Exhibit 22011-X0009, 7.0 Attachments, PDF pages 117-125.
[123] Exhibit 22011-X0005, application, PDF page 3.
[124] Exhibit 22011-X0009, 7.0 Attachments, PDF pages 106-117.
[125] Exhibit 22011-X0176.01, Calgary argument, paragraph 65.

of the Wipro global project delivery capability and realize the resultant reduced IT resource costs on IT projects.[126]

173. ATCO Pipelines argued that its approach to utilizing offshore resources is deliberate and prudent. Furthermore, Calgary quotes the Commission from the last GRA to the effect that "there is insufficient evidence on the record of this proceeding to evaluate the impact of offshoring on IT volumes or pricing" but ATCO Pipelines argued that Calgary failed to provide the full context of the Commission's position that offshoring concerns matters relate to pricing and are more appropriately explored in the IT common matters proceeding:

> 446. The Commission considers that the matter brought forward by Calgary with regard to offshore capabilities of Wipro is generally related to pricing, despite Calgary's submissions that, "This is not simply a matter of pricing, but a much broader matter of IT strategy that would likely impact both IT volume and pricing." In any event, there is insufficient evidence on the record of this proceeding to evaluate the impact of offshoring on IT volumes or pricing. ATCO Pipelines has indicated that it is in the process of investigating Wipro's offshoring capabilities and how that will impact ATCO Pipelines' services and operations.
>
> 447. The Commission considers it reasonable for ATCO Pipelines to investigate the impact of using offshore resources and anticipates that the examination of the MSA may occur in Proceeding 20514. As such, the Commission considers the issue of offshore capabilities of Wipro to be outside the scope of this proceeding and the Commission will not direct ATCO Pipelines to file further information in the compliance filing.[127] (emphasis added)

Commission finding

174. The Commission continues to be of the view that offshoring issues and recommendations related to the Wipro MSAs are best addressed within the ATCO IT common matters proceedings. Calgary's recommendation is therefore denied.

4.3 NGTL/ATCO Pipelines asset transfer

175. ATCO Pipelines and NGTL are both owners and operators of natural gas transmission assets in Alberta. On October 1, 2011, ATCO Pipelines implemented integration with NGTL on a commercial basis. ATCO Pipelines and NGTL own and operate assets within their respective areas. The exchange of assets (asset swap) was approved in principle by the Commission in Decision 2010-228[128] and by the NEB in Decision RHW-1-2010 and then subsequently approved by the Commission in Decision 2012-310[129] and by the NEB on October 16, 2014.[130] The NEB issued a Certificate of Public Convenience and Necessity, CPCN Order GC-123, on December 16, 2014.[131]

126 Exhibit 22011-X0176.01, Calgary argument, paragraphs 75-79.
127 Decision 3577-D01-2016, paragraphs 446-447.
128 Decision 2010-228: ATCO Pipelines, 2010-2012 Revenue Requirement Settlement and Alberta System Integration, Proceeding 223, Application 1605226-1, May 27, 2010.
129 Decision 2012-310: ATCO Gas and Pipelines Ltd., Asset Swap Application, Proceeding 1723, Application 1608166-1, November 22, 2012.
130 Exhibit 22011-X0005, application, Section 1.7, page 1 of 3.
131 Exhibit 22011-X0279, AP-UCA-2015FEB03-021(a).

176. The asset swap was completed on September 1, 2016 with the exchange of the final tranche (Tranche 4) of assets. The remaining steps include completion of land rights transfers, finalization of the license transfer process, and monetary adjustments.

177. The asset swap increased ATCO Pipelines' stations by seven per cent, H_2S stations by 42 per cent and total kilometres of pipeline maintained and operated by ATCO Pipelines by 10 per cent.[132] The summary of assets which were exchanged are provided in the table below:

Table 13. Summary of asset types exchanged

Phase	ATCO Pipelines assets to NGTL	NGTL assets to ATCO Pipelines
Completion of Tranche 1 transfer	6 pipe segments (6.5 km), 2 stations	-
Completion of Tranche 2 transfer	2 pipe segments (4.6 km)	53 pipe segments (431.3 km), 41 stations
Completion of Tranche 3 transfer	6 pipe segments (36.7 km)	11 pipe segments (40.4 km), 2 stations
Completion of Tranche 4 transfer	44 pipe segments (124.1 km), 7 stations	63 pipe segments (643.8 km), 40 stations
Total		
Stations	**9**	**83**
Pipeline license segments	**55 (171.9 km)**	**127 (1,115.5 km)**

178. The ownership of the assets in each tranche was transferred at the closing date for each tranche and the assets were transferred at their net book values after the closing of the fourth and final tranche. This resulted in an increase of $14.9 million to ATCO Pipelines' net book value. The true-up will be captured in the NGTL integration deferral account and will have no impact on customer rates.[133]

179. ATCO Pipelines provided the asset swap agreement, the long-term operating agreement, the cathodic protection services agreement, the odourization agreement, the integration agreement and all amending agreements between NGTL and ATCO Pipelines, in response to IRs.[134]

180. ATCO Pipelines, in response to an IR, listed some of the benefits of integration with NGTL, namely:

- Reduced labour costs – Reflects the elimination of 22 positions not required after commercial integration.
- Office space – Reduced rent due to consolidation of floor space post commercial integration.
- IT/phone – Reduced cost due to the elimination of 22 positions.
- STAR system – Reduced cost due to the elimination of ATCO Pipelines' requirement to bill customers.

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132 Exhibit 22011-X0005, application, Section 1.6, PDF pages 58-59.
133 Exhibit 22011-X0005, application, Section 1.6, page 3 of 3.
134 The asset swap agreement, the long-term operating agreement, the cathodic protection services agreement and all amending agreements were provided in exhibits 22011-X0048 to 22011-X0050, in response to IR AP-AUC-2016NOV-011(a). The integration agreement and amending agreements were provided in Exhibit 22011-X0047, PDF pages 385-528, in response to IR AP-AUC-2016NOV18-045.

- Gas Alberta Service Agreement – Gas Alberta performed O&M services for ATCO Pipelines at its delivery stations. This agreement was terminated when Gas Alberta became an NGTL customer.
- Increased efficiencies of transporting gas in Alberta, in particular, providing customers requiring transmission service with the ability to: contract once, pay a single toll, be subject to one set of terms and conditions of service, and participate in streamlined (fewer) regulatory proceedings.
- System planning and expansion is performed on an integrated and coordinated basis.
- There is no longer competition between ATCO Pipelines and NGTL to attract receipt and delivery customers which prevents the proliferation and/or duplication of facilities.[135]

181. In response to IRs, ATCO Pipelines identified certain increases to O&M costs driven by the NGTL asset swap. The impact of the asset swap in the test period is a net cost of $1.395 million in 2017 to ATCO Pipelines due to additional surface lease payments and additional supplies costs for additional receipt/delivery stations.[136]

182. Also in response to an IR, ATCO Pipelines listed additional land payments of $2.3 million and $2.4 million, in 2017 and 2018 respectively, and field materials and supplies of $0.8 million and $0.81 million respectively, to address the incremental pipeline segments and stations acquired from the asset swap. Two new positions pertaining to process control operations are also forecast to cost $0.16 million in labour for each of the two test years.[137]

183. In argument, the CCA stated that it considered the increased amount of $1.395 million in O&M expenses related to additional surface lease payments and additional supplies for the 74 receipt/delivery stations, as a result of the asset swap, to be reasonable.[138]

Commission findings

184. For the purposes of this application, the Commission reviewed the updated cost impact to ATCO Pipelines annual O&M costs. The transfer of assets between ATCO Pipelines and NGTL has been approved by both the Commission and the NEB, and the Commission considers that the transfer of assets as noted above appears consistent with the integration agreement between ATCO Pipelines and NGTL.

185. The Commission is cognizant that some additional O&M costs are required due to the asset transfers and considers that largely, the impact of those net new annual costs is negligible as they are a “transfer” of costs from NGTL to ATCO Pipelines, and vice versa, due to the transfer of assets. The Commission approves the O&M costs associated with integration with NGTL.

[135] Exhibit 22011-X0062, AP-UCA-2016NOV18-031(c) and (f), PDF pages 5 and 7.

[136] Exhibit 22011-X0047, AP-AUC-2016NOV18-035(a), PDF page 351. The total amount was calculated from the line items referencing the NGTL asset swap: $500,000 for additional surface lease payments + $895,000 for operations and maintenance (additional receipt/delivery stations).

[137] Exhibit 22011-X0047, AP-AUC-2016NOV18-0011(c), PDF page 228.

[138] Exhibit 22011-X0177, CCA argument, PDF pages 30-31.

4.3.1 NGTL integration deferral account

186. The NGTL integration deferral account was established to account for the difference between actual and approved costs and savings related to integration with NGTL. The NGTL integration deferral account was first included in the 2010-2012 Negotiated Settlement revenue requirements. The Commission approved the continuance of the deferral account in Decision 2013-430[139] and Decision 3577-D01-2016.[140] The Commission set all integration costs/savings forecast amounts for the 2016-2017 test period as placeholders of $0.[141]

187. ATCO Pipelines provided the following schedule for the NGTL integration deferral account, from 2012 forward:

Table 14. NGTL integration deferral account

	2012 actual	2013 actual	2014 actual	2015 actual	2016 estimate	Balance to settle
	($000)					
Opening balance	228	211	224	363	672	
Included in GRA						
Property tax and fixed asset consultant				(153)	(150)	
Land right payments					(1,600)	
Revenue requirement – capital				(84)	(184)	
Costs incurred						
Legal expenses	(38)	5	55	38	140	
Operations	21	8	84	456	584	
Land right payments					1,800	
Property tax and fixed asset consultant					35	
Property tax					1,638	
Revenue requirement – capital				40	4,051	
Net (over-)/under-recovery	(17)	13	139	297	6,314	
Carrying charges				12	86	
Cumulative (over-)/under-recovery	211	224	363	672	7,072	7,072

Source: Exhibit 22011-X0005, application, Section 5.1, Table 5.1-7, page 9 of 10.

188. In light of the closing of the NGTL asset swap as of September 1, 2016, ATCO Pipelines confirmed that it is seeking discontinuance of the integration account, after settling the account balance, in this application.[142]

189. No interveners addressed the discontinuance and settlement of the NGTL integration deferral account in evidence, argument or reply argument.

139 Decision 2013-430: ATCO Pipelines, 2013-2014 General Rate Application, Proceeding 2322, Application 1609158-1, December 4, 2013, paragraph 569.
140 Decision 3577-D01-2016, paragraph 253.
141 Exhibit 22011-X0005, application, Section 5.1, page 8 of 10.
142 Exhibit 22011-X0047, AP-AUC-2016NOV18-046, PDF page 429.

Commission findings

190. The Commission considers that the NGTL integration deferral account was established under the criteria for new deferral accounts set out in Decision 2003-100 of materiality, uncertainty in cost forecasts, factors beyond the utility's control and risk to the utility, while ensuring costs and benefits are symmetrically applied to the utility and customers. In particular, the NGTL integration deferral account was established to capture the difference between forecast and actual costs associated with integration with NGTL. Given that integration and the associated asset swap was completed in 2016, the Commission considers that the criteria for a deferral account are no longer met and ATCO Pipelines' request to discontinue and settle the NGTL integration deferral account is reasonable and necessary. The Commission has reviewed the inputs and calculations of the NGTL integration deferral account and approves ATCO Pipelines' one-time settlement amount of $7,072,000 as filed.

5 Necessary working capital

191. Necessary working capital (NWC) includes a provision for cash expenses and financial items, as well as ATCO Pipelines' investment in materials and supplies, line pack, salt cavern peaking working gas, and future income tax liabilities/regulatory assets. ATCO Pipelines asserted that the inclusion of these items is consistent with the items approved in Decision 3577-D01-2016. In support of the NWC, ATCO Pipelines pointed to its 2015 lead-lag study (study), which used 2011 payment patterns but was updated for 2015 data. In ATCO Pipelines' submission, the results of the study reflect minor changes in lead lag days from those previously approved, resulting in a change of lead-lag days from 259.36 to 264.80.[143] The methodology used in the study were consistent with those approved by the Commission in Decision 2003-100.

192. ATCO Pipelines provided its NWC requirement calculations for the test period in Table 2.4-1 in the application.[144] ATCO Pipelines forecast its NWC capital requirement to be $33,525,000 for 2017 and $32,844,000 for 2018, compared to actual NWC of $30,870,000 in 2015.[145]

193. In response to an IR, ATCO Pipelines noted that the net lag per cent related to the O&M expense category decreased from 4.97 per cent to 2.99 per cent as a result of the timing of payments. ATCO Pipelines also calculated that if the forecast variable pay program (VPP) provision of $1,219,000, which was included in the 2015 data, is removed, the average operating cost lag is 4.40 per cent.[146]

194. NWC was not addressed in any party's argument or reply argument.

Commission findings

195. The Commission's findings on ATCO Pipelines' response to Direction 9 in Decision 3577-D01-2016, regarding capital additions lag, will be addressed in Section 10 below.

143 Exhibit 22011-X0005, application, Section 2.4, pages 1-8 of 8.
144 Exhibit 22011-X0005, application, Section 2.4, Table 2.4-1, page 2 of 8.
145 Exhibit 22011-X0056, AP-AUC-2016NOV18-001(a) Attachment, Schedule 2.1-1.
146 Exhibit 22011-X0044, AP-AUC-2016NOV18-066 and AP-AUC-2016NOV18-067, PDF pages 36-38.

196. The Commission has reviewed ATCO Pipelines' NWC forecast and supporting lead-lag study and approves the forecast as filed. It is also satisfied that ATCO Pipelines' lead-lag study is consistent with the methodology approved in Decision 2003-100.

6 Operating costs

197. ATCO Pipelines' revenue requirement includes operating costs, which are composed of O&M costs and A&G costs. ATCO Pipelines forecasts total operating costs of $67,836,000 in 2017 and $70,543,000 in 2018. In the 2017 and 2018 test years, the total operating expenses represent approximately 25 and 24 per cent, respectively, of ATCO Pipelines' forecast revenue requirement. The 2017 and 2018 forecasts are based on 2015 actual costs and 2016 forecasts which incorporate the impact of organizational restructuring in November 2015, together with expected changes in the test period.[147]

Table 15. Total operating expenses

	2012 actual	2013 actual	2014 actual	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)						
Operations and maintenance	29,317	30,908	27,962	32,202	34,693	40,084	42,197
Administration and general	26,521	29,884	26,860	29,668	30,011	29,771	30,483
Operating costs – corporate (subtotal)	**55,838**	**60,792**	**54,822**	**54,822**	**64,704**	**69,855**	**72,680**
Less disallowed operating costs	1,328	4,687	4,171	2,223	2,316	2,019	2,137
Total operating costs – utility	**64,510**	**56,105**	**50,651**	**59,647**	**62,388**	**67,836**	**70,543**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-001(a) Attachment and AP-AUC-2016NOV18-003(a) Attachment, PDF pages 9 and 51, Schedule 4.2-1.

198. ATCO Pipelines stated that the key drivers for operating cost forecasts are the provision of safe and reliable service; evolution of its pipeline system and operating environment; and labour force demographics, in particular an increase to the number of permanent positions which translates into an increased requirement for training programs and resources for recruiting, coaching and mentoring.[148] ATCO Pipelines' labour force demographics will be discussed further in Section 6.3.4.

6.1 Forecasting accuracy

199. As discussed in Section 4.1 above, Mr. Bell, on behalf of the UCA, submitted evidence on ATCO Pipelines' forecast accuracy of rate base, O&M and A&G amounts from 2013 to 2016. Overall, Mr. Bell concluded that ATCO Pipelines averaged 8.19 per cent variance from approved to actual for total operating costs (O&M and A&G less disallowed operating costs) which resulted in customers paying $20.416 million more in rates than required. Mr. Bell's analysis is shown below:

147 Exhibit 22011-X0005, application, Section 4.2, page 1 of 4.
148 Exhibit 22011-X0005, application, Section 4.2, pages 1-3 of 4.

Table 16. Comparison of actual versus approved O&M and A&G amounts from 2013-2016

	2013	2014	2015	2016	Total
	($000)				
Actual					
Operations and maintenance	30,908	27,962	32,202	34,693	125,765
Administration and general	29,884	26,860	29,668	30,011	116,423
Less Disallowed operating	4,687	4,171	2,223	2,316	13,397
Operating costs - utility	56,105	50,651	59,647	62,388	228,791
Approved					
Operations and maintenance	32,093	34,222	33,518	36,727	136,560
Administration and general	31,468	31,398	31,651	31,576	126,093
Less Disallowed operating	4,960	4,498	2,027	1,961	13,446
Operating costs - utility	58,601	61,122	63,142	66,342	249,207
Variance					
Operations and maintenance	(1,185)	(6,260)	(1,316)	(2,034)	(10,795)
Administration and general	(1,584)	(4,538)	(1,983)	(1,565)	(9,670)
Less Disallowed operating	(273)	(327)	196	355	(49)
Operating costs - utility	*(2,496)*	*(10,471)*	*(3,495)*	*(3,954)*	*(20,416)*
Operating costs – utility (%)	*-4.26*	*-17.13*	*-5.54*	*-5.96*	*-8.19*

Source; Actual and approved in UCA evidence taken from Schedule 4.2-1 in Exhibit 22011-X0056.

200. Mr. Bell concluded that the “level and pattern of over forecasting seems unlikely to just be efficiencies” because, in Mr. Bell’s view, continued efficiencies should result in lower variances over time and closer returns to the authorized return.[149] In response to a Commission IR, Mr. Bell expanded on expected operational efficiencies stating that replacing aging plant with new assets should result in lower maintenance costs, and any work to improve pipeline integrity should also reduce maintenance costs.[150] Given the forecast errors from 2013 to 2016, Mr. Bell recommended that O&M be reduced by 10 per cent and A&G be reduced by seven per cent.[151] These recommended reductions include revised labour salary escalations of zero per cent.[152]

201. In its rebuttal evidence, ATCO Pipelines stated that the table provided in the UCA evidence is inaccurate because it includes items covered in the VPP and pension funding deferral accounts in the actual amounts, which “skews the result by including items over which it was recognized that there is uncertainty in forecasting.” ATCO Pipelines provided an analysis, shown below, which excluded operating costs on deferral account items and which showed that its operating costs actuals exceed approved amounts.[153]

149 Exhibit 22011-X0130, UCA evidence, PDF pages 7-11.
150 Exhibit 22011-X0138, UCA-AUC-2017FEB28-007, PDF page 10.
151 Exhibit 22011-X0130, UCA evidence, PDF page 19.
152 Exhibit 22011-X0138, UCA-AUC-2017FEB28-009, PDF page 12.
153 Exhibit 22011-X0139, ATCO Pipelines rebuttal evidence, PDF pages 5-6.

Table 17. Comparison of actual versus approved operating costs adjusted for deferral accounts

	2015	2016	Total
Operating costs (O&M and A&G)	($000)		
Actual	61,870	64,704	126,574
Approved	65,169	68,303	133,472
Variance	**(3,299)**	**(3,599)**	**(6,898)**
Less: deferral differences			
VPP	1,590	12	1,602
Pension funding	-	228	228
Revised variance (actual to approved)	**(1,709)**	**(3,359)**	**(5,068)**
% variance (actual to approved)	-2.6	-4.9	-3.8

202. In argument, the UCA adopted Mr. Bell's evidence and argued that ATCO Pipelines' forecasts "should be reduced across the board due to historical over-forecasting." The UCA argument pointed to Mr. Bell's analysis of the variance in O&M and A&G accounts, by year, which showed that 75 per cent of the variances observed in O&M and 50 per cent of the variances observed in A&G are negative, which is indicative of over-forecasting. The UCA argued that ATCO Pipelines' rebuttal evidence does not address the account by account over-forecasting presented in Mr. Bell's evidence and ATCO Pipelines' assertion that VPP and pension deferral account amounts should be removed from the analysis is flawed as ATCO Pipelines' analysis only removed the variance associated with the actuals, not the approved costs.[154] In reply argument, the UCA calculated that removing VPP and pension deferral amounts from the approved and actual O&M costs would result in a minor reduction to the four year average of over-forecasting.[155]

203. In its argument, the CCA expressed concern with "the apparent continual trend of earnings … in excess of the earnings approved in the various GRA applications." The CCA disagreed with ATCO Pipelines' rebuttal evidence where amounts associated with VPP and pension fund deferral accounts were removed from actual costs. In the CCA's view, these amounts should have been subtracted from both the actual and approved operating costs. The CCA agreed that operational efficiencies may reduce costs in any operating year [below forecast] but that it would be more difficult to find added efficiencies year-over-year. The CCA concluded that ATCO Pipelines' had demonstrated a "consistent pattern of over-estimating both the O&M and capital expenditure amounts" and that it should be directed to reduce the forecast O&M by the amounts identified by the interveners.[156]

204. In reply argument, ATCO Pipelines argued that "an across-the-board disallowance is a very blunt instrument that should only be resorted to if there is a chronic problem with evidence across-the-board."[157] ATCO Pipelines argued that the UCA's argument contained flaws in that the requested disallowances represent "double dipping" in that past data used in the analysis contained past disallowances and in that the across-the-board disallowance is in addition to further requests for disallowances in specific areas, the requested disallowance ignores "a trend of improved forecasting in recent years." Finally, ATCO submitted that the requested disallowances ignore cost efficiencies which result in lower actual costs in a test period but

154 Exhibit 22011-X0183, UCA argument, PDF pages 24-30.
155 Exhibit 22011-X0188, UCA reply argument, PDF page 9.
156 Exhibit 22011-X0177, CCA argument, PDF pages 21-23.
157 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 32.

which are then carried forward to future rate proceedings, to the customers' benefit. ATCO Pipelines addressed the UCA's argument that ATCO Pipelines' rebuttal does not address account by account variances by stating that looking at the individual elements is overly burdensome.

205. ATCO Pipelines also addressed the issue in the UCA and CCA arguments regarding removing deferral account amounts from the approved and actual costs in the analysis by recalculating the variances, shown in the table below. In ATCO Pipelines' submission, the resultant variance is "well within the bounds of reasonable forecasting accuracy."[158] ATCO Pipelines did not specifically address the CCA's argument apart from referring to its points made with respect to forecasting accuracy in response to the UCA argument.[159]

Table 18. Revised O&M and A&G forecast variances to remove amounts subject to deferral accounts

	2015 actual	2016 estimate	Total
	($000)		
Approved	65,169	68,303	133,472
VPP	(1,590)	(1,674)	(3,264)
Pension	(1,263)	(1,203)	(2,466)
Revised approved	*62,316*	*65,426*	*127,742*
Actual	61,870	64,704	126,574
VPP	-	(1,661)	(1,661)
Pension	(1,263)	(975)	(2,238)
Revised actual	*60,607*	*62,068*	*122,675*
Difference	(1,709)	(3,358)	(5,067_
Percentage over/under	**-2.7%**	**-5.1%**	**-4.0%**

Commission findings

206. The Commission has reviewed the evidence put forward by the UCA and ATCO Pipelines' rebuttal and the argument and reply argument submitted by parties on these issues, and notes that historical O&M forecasts appear to, on average, be greater than the actuals for the same year. The Commission accepts that some portion of this variance may be due to efficiencies gained by ATCO Pipelines, however, the evidence on the record does not allow for identification for a specific portion of the variance to be attributed to efficiencies gained. The Commission therefore does not have sufficient information to make a finding that the variance between forecast and actual O&M expenses is due to over-forecasting. The Commission continues to be of the view that a high level analysis, such as that provided in Mr. Bell's evidence, can be used as a reasonableness check on forecast O&M costs.[160] However, the Commission will not direct an "across-the-board" disallowance to O&M forecasts in this proceeding, as recommended by the UCA because the Commission is not satisfied that the reduction advocated for has any bearing to what ATCO Pipelines actually requires to safely and reliably operate its system. As discussed in

158 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 32-35.
159 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 62.
160 In Decision 3539-D01-2015: EPCOR Distribution & Transmission Inc., 2015-2017 Transmission Facility Owner Tariff, Proceeding 3539, Application 1611027-1, October 21, 2015, at paragraph 113, the Commission found that the high level methodology used in Mr. Retnanandan's evidence, which is similar to that provided by Mr. Bell in this proceeding, could be used as a reasonableness check on forecast O&M costs.

the sections below, the Commission has directed adjustments to specific elements of ATCO Pipelines' O&M forecasts which may address some of the UCA's concerns.

6.2 Direct operation and maintenance expenses

207. O&M costs include the labour and supplies costs related to the operation and maintenance of ATCO Pipelines'transmission lines, compressors, measuring and regulating stations and facilities and control and communication systems.[161]

208. Key drivers of the increase from 2016 to 2017 includes:

- Inflation affecting labour and supply costs.
- Measurement verification at the field level, using third-party resources to confirm all measurement is accurate.
- Regulatory compliance assessing ATCO Pipelines' major management programs and policies (Emergency Management; Health, Safety and Environment; and Integrity Management).
- Hardening of ATCO Pipelines' Control System to respond to increased cybersecurity threats.
- Asset swap impacts:
  - Increased number of assets to operate and maintain as a result of the NGTL asset swap. ATCO Pipelines' pipeline system has gone from 8,500 km prior to Asset Swap to 9,400 km post asset swap and includes an additional 74 stations. Notably, while the number of stations and length of pipe have increased for ATCO Pipelines, with corresponding increases in O&M activity, there is a corresponding decrease for NGTL. Moreover, and given the single tolling structure, there will be no impact to customer rates.
  - Annual land rights payments, once assets are swapped with NGTL – these costs will no longer be incurred by NGTL.[162]

209. The key driver of the forecast O&M increase from 2017 to 2018 is inflation which impacts labour and supply costs.[163]

[161] Exhibit 22011-X0005, application, Section 4.2, page 1 of 4.
[162] Exhibit 22011-X0005, application, Section 4.2.1, page 1 of 14.
[163] Exhibit 22011-X0005, application, Section 4.2.1, page 2 of 14.

210. ATCO Pipelines grouped its O&M expenses into the cost categories shown in the table below:

Table 19. Transmission operating expenses breakdownr

	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)			
Fringe benefit transmissions labour	3,511	3,244	3,410	3,531
Salt cavern operation	1,044	1,064	1,106	1,138
Underground storage - compressors	21	41	42	43
Transmission operations	9,814	8,730	9,416	9,947
Pipeline operations	11,025	14,435	17,557	18,870
Compressor operations	1,644	1,887	2,119	2,160
Measurement and regulating	5,388	6,331	7,585	7,654
Transmission other	929	949	933	955
Cost of providing service	2,610	2,445	2,016	2,093
Recovery of costs	(3,784)	(4,433)	(4,100)	(4,194)
Less disallowed operating costs	759	214	217	217
Total	**31,433**	**34,479**	**39,687**	**41,980**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-003(a) Attachment, Schedule 4.2.1-2.

211. ATCO Pipelines provided explanations for the differences in forecast costs for the major O&M categories, for the test period. For example, costs in the fringe benefit transmission labour account are forecast to increase from 2016 actuals to 2017 forecast and again to 2018 forecast due to increased labour costs.[164] The increases in transmission operations shown in Table 18 during the test period are due to increased operational support for modeling analysis, project hardware/software implementation and risk mitigation.

212. The increases in pipeline operations during the test period are due to higher regulatory compliance, higher surface leases from additional stations and kilometres transferred from the NGTL asset swap, increased control centre monitoring points, increased operation and maintenance of the pipeline network, additional "growth" positions and inflation. The increases in measurement and regulating during the test period are due to increased number of stations with H2S equipment and gas chromatographs from the NGTL asset swap.[165]

213. Transmission function costs were further split between internal labour costs and external supply costs. ATCO Pipelines forecast total transmission labour expenses of $18.016 million and $18.765 million in 2017 and 2018, respectively, as compared against 2016 estimated actuals of $16.843 million. O&M supplies were forecast to be $22.068 million and $23.432 million in 2017 and 2018, respectively, as compared against 2016 estimated actuals of $17.850 million.[166] Labour cost components of O&M will be discussed further in Section 6.3 below. O&M supplies cost components of O&M will be discussed further in Section 6.4 below.

[164] Exhibit 22011-X0047, AP-AUC-2016NOV18-001(b) Attachment, Table 4.2.1-2, PDF pages 19-20.
[165] Exhibit 22011-X0047, AP-AUC-2016NOV18-001(b) Attachment, Table 4.2.1-2, PDF page 20.
[166] Exhibit 22011-X0047, AP-AUC-2016NOV18-001(b) Attachment, Tables 4.2.1-3 and 4.2.1-4, PDF pages 21-22.

214. None of the interveners submitted views on the overall forecast O&M costs. However, in argument, the CCA did assess the forecast O&M costs for the regulatory compliance assessment initiative (to assess ATCO Pipelines' programs and policies for Emergency Management; Health, Safety and Environment; and Integrity Management) and considered the forecast costs to be reasonable. The CCA stated that it expected a report at the time of ATCO Pipelines' next GRA which shows the progress of this initiative.[167]

Commission findings

215. The Commission has examined the evidence on the record of this proceeding respecting ATCO Pipelines' forecast O&M costs. Having reviewed the forecast O&M costs, the application, responses to IRs, the argument and reply argument submitted by parties and other information, the Commission approves ATCO Pipelines' forecast O&M costs for the years 2017 and 2018, subject to any adjustments arising from the findings for those O&M costs components specifically identified in the sections below.

6.3 O&M labour costs

216. O&M labour costs are forecast to be higher in 2017 and 2018 primarily due to annual labour inflation and growth in FTE positions. O&M labour is classified by activity, namely salt cavern operations, gas control, customer and pipeline system support, engineering and planning, pipeline operations, safety and training, compressor operations, and measurement and regulating operations.[168]

217. ATCO Pipelines forecast training costs of $764,000 and $781,000, in 2017 and 2018 respectively. These amounts include labour and expenses for staff to attend external training and mentoring. On the job training and mentoring is not tracked.[169] ATCO Pipelines noted that training such as job shadowing and parallel job duties is done as part of succession planning. ATCO Pipelines also offers leadership and development programs to employees, the costs for which are summarized below:

Table 20. Forecast costs for primary leadership and development training programs

Program	2017	2018
	($)	
Change management	215,000	220,000
Leadership development	168,000	242,000
Talent development	169,000	205,000
Customer service training	84,000	86,000

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-040(b), PDF page 374.

218. ATCO Pipelines considers training necessary to ensure that employees are equipped to perform their duties and to support ongoing development of the employees.[170]

219. Other drivers of O&M labour costs are discussed in the sections below. Specifically, increases in labour costs due to wage inflation are discussed in Section 6.3.1 below and increases in labour costs due to the addition of FTE positions is discussed in Section 6.3.4 below.

167 Exhibit 22011-X0177, CCA argument, PDF page 30.
168 Exhibit 22011-X0005, application, Section 4.2.1, pages 3-4 of 14.
169 Exhibit 22011-X0047, AP-AUC-2016NOV18-039(c), PDF page 371.
170 Exhibit 22011-X0047, AP-AUC-2016NOV18-040(a) and (c), PDF pages 374 and 376.

6.3.1 Salary escalators

6.3.1.1 In-scope employees

220. ATCO Pipelines, and the Natural Gas Employee Association, who represent ATCO Pipelines’ association members (in-scope employees), negotiated a two-year collective agreement for the period January 1, 2016 to December 31, 2017. The agreement provided for a lump sum payment of $2,500 per person in 2017, which, per ATCO Pipelines’ application, equates to a 2.67 per cent increase. ATCO Pipelines forecast an in-scope salary escalation of 2.3 per cent for 2018. ATCO Pipelines submitted that this is consistent with recent Alberta wage settlements. ATCO Pipelines also submitted that the increases for 2017 and 2018 are consistent with other recent Alberta union wage settlements.[171]

221. The UCA took issue with ATCO Pipelines’ labour settlement for 2017. The UCA submitted that ATCO Pipelines had failed to prove that its in-scope labour settlement for 2017 is reasonable stating that its selection of comparables for its 2017 lump-sum payment is flawed because it fails to mirror current economic conditions. The UCA argued that the 2017 comparables that ATCO Pipelines relied on included collective agreements that were reached in 2013 and 2014, which the UCA noted were entered into prior to the significant downturn in the Alberta economy. The UCA submitted that while the full list of comparables that ATCO Pipelines relied on yields an average salary increase of 2.2 per cent for 2017, restricting the analysis to only those collective agreements entered into in 2015 or later leads to an average salary increase of 1.69 per cent for 2017. The UCA submitted that, ATCO Pipelines had failed to explain why it is reasonable for it to pay a $2,500 lump sum payment that provides a salary increase in excess of the 2.2 per cent average for all comparables, let alone the 1.69 per cent average for the more recent comparables.[172]

222. The UCA argued that ATCO Pipelines had failed to demonstrate that the $2,500 lump sum payment was prudent, as ATCO Pipelines’ collective agreement was reached in June 2016, when the downturn in the Alberta economy was apparent to both ATCO Pipelines and the Natural Gas Employees Association. The UCA recommended that the Commission should deny the 2017 lump sum payment of $2,500 or, in the alternative, limit the allowed in-scope labour salary increase to 1.69 per cent rather than the applied for 2.69 per cent.[173] The UCA did not provide any evidence on the 2018 in-scope salary escalation of 2.3 per cent.

223. ATCO Pipelines submitted reply that the lump sum was negotiated in good faith between ATCO Pipelines and its employees, is in-line with industry settlements and the suggestion that ATCO Pipelines should have “cut a better deal” is not supported by the evidence.[174]

Commission findings

224. For 2017, the Commission accepts the $2,500 lump sum payment made to in-scope employees as it was part of a two-year collective agreement that was negotiated by ATCO Pipelines in good faith. The Commission is not persuaded, in this case, that the lump sum payment was imprudent and should be disallowed on the basis of the economic downturn in Alberta at the time the collective agreement was entered into. For 2018, the Commission

171 Exhibit 22011-X0005, application, Section 1.3, pages 1-2 of 4.
172 Exhibit 22011-X0183, UCA argument, PDF pages 31-32.
173 Exhibit 22011-X0183, UCA argument, PDF page 32.
174 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 39.

approves an in-scope salary escalation of 2.2 per cent which is the most current average inflation rate of comparables provided by ATCO Pipelines in its response to AP-AUC-2017APR11-019.[175]

6.3.1.2 Out-of-scope employees

225. ATCO Pipelines retained Mercer to provide advice with respect to the level of salary escalation applicable to non-union (out-of-scope) employees for 2017 and 2018. For 2017 and 2018, ATCO Pipelines is forecasting salary escalations of 1 and 2.5 per cent, respectively, for out-of-scope employees. ATCO Pipelines noted that it also provides incremental adjustments and promotional increases resulting from employee progression.[176]

226. In the 2016 Total Remuneration Report provided as an attachment to the application (Mercer report), ATCO Pipelines' 2016 remuneration was compared to 2015 actual remuneration in 43 peer companies to reflect the competitiveness of ATCO Pipelines' total remuneration. ATCO Pipelines' base salary and total cash compensation[177] are one per cent and seven per cent below the market median (50th percentile) while total direct compensation[178] is 11 per cent below the market median and total remuneration[179] is 15 per cent below the market median.[180] Mercer recommended a range of aggregate salary escalation for out-of-scope employees between 0.5 and one per cent for 2017 and between two and 2.5 per cent for 2018.[181] ATCO Pipelines submitted that its use of the higher end of Mercer's recommended range is supported by its total direct compensation being 11 per cent below market.[182]

227. ATCO Pipelines submitted that it targets the 50th percentile of the market for its total employee compensation. ATCO Pipelines submitted that this target allows ATCO Pipelines to manage its costs while also appropriately positioning it to provide completive compensation and compete effectively with other companies for talent.[183]

228. When asked in IRs to provide ATCO Pipelines' forecast and actual salary increases for out-of-scope employees from 2012 to 2016, ATCO Pipelines provided the table below.

Table 21. ATCO Pipelines forecast and actual out-of-scope increases from 2012-2016

	2012	2013	2014	2015	2016
	(%)				
Actual	4.15	3.70	3.25	0.91	0.00
Forecast	n/a	5.00	5.50	3.00	3.00

Source: Exhibit 22011-X0071, AP-CAPP-2016NOV18-008, PDF pages 30-31.

229. Mr. Russ Bell's evidence, filed on behalf of the UCA, stated that there are concerns with the Mercer study. Mr. Bell noted that Mercer was not aware of any organizations which target below the median and stated that:

175 Exhibit 22011-X0166, AP-AUC-2017APR11-019, PDF pages 59-61.
176 Exhibit 22011-X0005, application, Section 1.3, page 2 of 4.
177 Target total cash compensation = base salary + target short-term incentives.
178 Target total direct compensation = target total cash compensation + perquisites + long-term incentives.
179 Target total remuneration = target total direct compensation + pension and savings + health and group benefits.
180 Exhibit 22011-X0005, application, Section 1.3 Attachment 2, pages 3-4 of 33.
181 Exhibit 22011-X0005, application, Section 1.3 Attachment 1, page 3 of 4.
182 Exhibit 22011-X0047, AP-AUC-2016NOV18-005(b), PDF page 69.
183 Exhibit 22011-X0047, AP-AUC-2016NOV18-006(a), PDF page 70.

> From a purely theoretical perspective, this creates an endless loop of raises. For peers that are below median, they give raises to achieve median, which increases the median, so those at median have to give raises, and those that target to be above median must also give increases. This leaves the lower cohort below median again, forcing more salary increases, and the cycle repeats itself.[184]

230. Furthermore, Mr. Bell indicated that with the uncertain economic environment in Alberta, one would expect that the level of pay to attract and retain experienced employees would be less than in a more robust economy so the need for salary escalations would be reduced if not eliminated. In Mr. Bell's view, the Mercer report does not adequately take into account the current economic climate in Alberta. Therefore, ATCO Pipelines' forecasts for salary escalations are not reasonable.[185] In response to an IR, Mr. Bell indicated that a salary benchmark report, such as the Mercer report, should not be the only factor in assessing appropriate salary increases and, while these reports can inform management, they cannot "be treated as a complete picture."[186] As noted in Section 6.1 above, Mr. Bell recommended certain reductions to O&M and A&G which include a revised labour salary escalation of zero per cent.[187]

231. ATCO Pipelines submitted rebuttal evidence prepared by Mercer to address the UCA evidence on compensation. Mercer agreed with Mr. Bell's statement that targeting the median creates an endless loops of raises from a theoretical perspective but not from a practical perspective. Mercer indicated that, in its experience, companies achieve market median positioning by providing larger or smaller increases if their competitive positions is below or above median, meaning that not every company will increase their pay levels at the same rate annually and that at some point, companies will reach a level where their rate of increase will slow down without further increasing the market median. Additionally, Mercer noted that each company uses a different comparator group to benchmark its compensation.[188] With respect to the economic climate in Alberta, Mercer's view was that ATCO Pipelines should not redefine the market for talent, and therefore its peer group, based on economic conditions.

232. In rebuttal evidence, Mercer revised its forecast for aggregate salary increase budgets to 1.5 to two per cent for 2017 and 2.3 to 2.7 per cent for 2018 for a total increase of 3.8 to 4.7 per cent for the test period, based on "a sense of optimism and pending recovering in the energy sector." According to Mercer's latest information, "most energy sector organizations are providing or planning to provide salary increases to their employees" and, additionally, "economic indicators reported by Canadian banks suggest that the Alberta economy is improving, and is not expected to trail the rest of Canada like it has for the past two years."[189]

233. In argument, the UCA submitted it had concerns with ATCO Pipelines' out-of-scope labour escalation. ATCO Pipelines had consistently over-forecast its out-of-scope labour salary increases. In particular, the 2015 and 2016 over-forecasts arose directly from a similar analysis by Mercer that was filed in support of its application and the historical data shows that the ATCO Pipelines peer group analysis that Mercer used is constantly in excess of ATCO Pipelines' actual out-of-scope salary escalation. Additionally, the UCA argued that Mercer's

[184] Exhibit 22011-X0130, UCA evidence, PDF page 15.
[185] Exhibit 22011-X0130, UCA evidence, PDF pages 15-18.
[186] Exhibit 22011-X0138, UCA-AUC-2017FEB28-008, PDF page 11.
[187] Exhibit 22011-X0138, UCA-AUC-2017FEB28-009, PDF page 12.
[188] Exhibit 22011-X0139, ATCO Pipelines rebuttal evidence, PDF page 12.
[189] Exhibit 22011-X0139, ATCO Pipelines rebuttal evidence, PDF pages 12-14.

evidence does not demonstrate that they are providing reliable comparables, such as comparing to only regulated companies and sufficiently incorporating relevant factors into its analysis such as employment stability and the economic environment.[190]

234. The UCA argued that neither ATCO Pipelines or Mercer have justified targeting median compensation as necessary to provide utility service and that ATCO Pipelines is relying on its perceived need to target market median salaries to support its salary escalation estimates. The UCA submitted that much of the reason its out-of-scope labour is not currently near or at market median is because ATCO Pipelines has not actually increased salaries consistent with its forecast salary increases each of the past four years, the UCA reproduced the same table shown above, Table 21.[191]

235. The UCA submitted that the Commission should not rely on Mercer's methodology and should instead apply its own judgement to determine a reasonable forecast for ATCO Pipelines' out-of-scope salary increase. The UCA argued that ATCO Pipelines had failed to prove that its out-of-scope labour escalation forecasts are reasonable and the Commission should address this through an overall reduction in the O&M and A&G cost reductions as recommended by Mr. Bell, discussed in Section 6.1 above. Alternatively, if the Commission does not address this through an overall reduction then it should only approve half of ATCO Pipelines' forecast escalation.[192]

236. ATCO Pipelines replied that it had engaged Mercer, a third-party compensation expert, to provide a compensation study and forecast for salary escalations. The UCA did not provide any evidence as to what a reasonable escalation factor would be. Rather, the UCA speculated that the number provided by Mercer is incorrect, without evidence or alternatively, a comparable study, and this macroeconomic approach is unreasonable and should be rejected. Additionally, ATCO Pipelines submitted that in 2015 and 2016 it reacted to the extraordinary market conditions and had not over-forecast its out-of-scope labour salary increases.[193]

237. ATCO Pipelines submitted that the skill set required by utility and non-utility companies is comparable and that while in theory employees prefer working for organizations that have lower turnover, attracting and retaining employees becomes comparably difficult as the talent required is the same. With respect to the Mercer study, its analysis, including all scenarios, which includes organizations that reported salary freezes and also using a peer group of only regulated companies, gives a sample size that is small and not representative.[194] ATCO Pipelines submitted that its forecast of 1.0 per cent for 2017 and 2.5 per cent 2018 for out-of-scope employees is reasonable because its total direct compensation lags the market by 11 per cent as presented in the Mercer study.[195]

Commission findings

238. The Commission agrees with the UCA and finds that the Mercer study is only one factor in assessing appropriate wage increases and does not supplant management judgement and other factors in the economy to arrive at a salary required to attract and retain talent. The Commission

[190] Exhibit 22011-X0188, UCA argument, PDF pages 32-35.
[191] Exhibit 22011-X0188, UCA argument, PDF pages 35-36.
[192] Exhibit 22011-X0188, UCA argument, PDF pages 32-36.
[193] Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 39-40.
[194] Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 40.
[195] Exhibit 22011-X0047, AP-AUC-2016NOV18-005(b), PDF page 69.

considers that it is very difficult for any study to incorporate intangible factors such as the economic environment, risk of job loss and the unemployment rate. ATCO Pipelines itself confirmed that the Mercer study did not consider these types of factors.[196]

239. Additionally, the Commission finds, as shown in Table 21 above, that ATCO Pipelines has consistently over-forecast its out-of-scope salary escalation factors. Sole reliance on the Mercer study may be what has led to the over-forecasting. In ATCO Pipelines' last GRA, ATCO Pipelines' and Mercer's recommended range for 2015 and 2016 was 3.0 per cent which was higher than ATCO Pipelines' actual increase of 0.91 per cent and 0.0 per cent for 2015 and 2016, respectively.

240. The Commission has reviewed the record of this proceeding and finds an out-of-scope labour escalation rate of 0.5 per cent for 2017 and 1.0 per cent for 2018 is reflective of the current market and is based on the best information available on the record of this proceeding.

241. The Commission does not accept ATCO Pipelines argument that 1.0 per cent for 2017 and 2.5 per cent for 2018 is reasonable because it lags the market in total direct compensation by 11 per cent. The Commission finds that when looking at base salary, ATCO Pipelines is, on average, one per cent below the 50th percentile.[197] The Commission finds that there is no need for an increased salary escalator to compensate for any lag with respect to ATCO Pipelines' base salary target of the 50th percentile. Additionally, the Commission agrees with the UCA that much of the reason its out-of-scope labour is not currently near or at market median is because ATCO Pipelines has not actually increased salaries consistent with its forecast salary increases and the Commission also considers that ATCO Pipelines has other means to manage its total direct compensation.

242. The Commission continues to find that target total compensation includes items such as variable pay, perquisites, long-term incentive pay, pension and savings, and health and group benefits.[198] Although some of these items are not included for recovery in ATCO Pipelines' revenue requirement, the Commission considers that it is within the discretion of ATCO Pipelines' management to review if these tools are required to retain and attract employees, and therefore, ATCO Pipelines has the ability to vary any of these items to meet its objectives with respect to total compensation.

243. Accordingly, the Commission approves a 0.5 per cent out-of-scope salary escalation factor for 2017 and a 1.0 per cent out-of-scope salary escalation factor for 2018. The Commission considers that the 0.5 per cent for 2017 and the 1.0 per cent for 2018 should be inclusive of all salary increases and promotional increases that ATCO Pipelines collects in its revenue requirements for the test period. The Commission directs ATCO Pipelines to reflect these findings in its compliance filing to this decision.

6.3.2 Variable pay program

244. In 2013, ATCO Pipelines implemented a new VPP, which was approved by the Commission in Decision 2013-430. ATCO Pipelines stated that the VPP is an important part of compensation in order to attract and retain qualified and motivated employees.

196 Exhibit 22011-X0061, AP-UCA-2016Nov18-028(c), PDF page 118 and Exhibit 22011-X0171, AP-UCA-2017APR11-006(d) and (h), PDF pages 13-14.
197 Exhibit 22011-X0005, application, Section 1.3 Attachment 2, page 4 of 33.
198 For example see Exhibit 22011-X0005, application, Section 1.3 Attachment 2, page 4 of 33.

245. ATCO Pipelines submitted that the VPP is a variable pay-at-risk program that rewards eligible employees for helping the organization achieve a high level of performance, with the amount of the award aligned to company and individual performance. Payments under its VPP are based on three criteria: achievement of employees' individual performance goals, achievement of department metrics, and achievement of company goals. Variances can exist if these goals are not met, there is a lower number of employees being eligible for VPP than originally forecast or due to extraordinary market conditions. ATCO Pipelines currently has a VPP deferral account and any amounts under the approved forecast will be trued-up in the next GRA.[199]

246. ATCO Pipelines stated that VPP was not paid out in 2014 or 2015 due to "extraordinary market conditions during that time," however, ATCO Pipelines submitted that VPP spending will be required in the test period and is forecasting expenses of $2,818,000 in 2017 and $2,910,000 in 2018. In Decision 3577-D01-2016, the Commission approved ATCO Pipelines' continued use of a VPP deferral account. ATCO Pipelines is not proposing any changes to the approved VPP deferral account in this application.[200]

Commission findings

247. The Commission has examined the evidence on the record for forecast VPP costs and finds that the amounts are reasonable and considers that the VPP gives ATCO Pipelines the ability to react to the marketplace and manage its employee retention. Additionally, any VPP amounts not paid out during the test period will be refunded to customers. Accordingly, the Commission approves the forecast VPP costs as filed.

248. ATCO Pipelines requested continuation of its variable pay program deferral account. The Commission's findings on the variable pay deferral account are discussed in Section 8 below.

6.3.3 Pension costs

249. ATCO Electric Ltd., ATCO Gas, and ATCO Pipelines (the ATCO Utilities) filed its 2014-2015 and 2016 pension application[201] (pension application) on July 20, 2016. The outcome of that proceeding will establish the approved defined benefit pension costs to be used in the determination of ATCO Pipelines' final deferral account balances for 2014, 2015 and 2016.

250. The differences between the actual defined benefit pension costs incurred and the placeholder values included in ATCO Pipelines' approved 2013-2016 revenue requirements have been included in its defined benefit pension costs deferral account which will be settled upon the completion of the pension application.[202] The Commission's findings on the defined benefit pension costs deferral account are discussed in Section 8 below.

251. In the pension application, the ATCO Utilities filed an updated Mercer actuarial valuation for pension funding as of December 31, 2013 (2013 valuation report) and the Mercer actuarial valuation for pension funding as of December 31, 2015 (2015 valuation report). According to the 2013 valuation report, the pension plan had a deficiency funding requirement,

199 Exhibit 22011-X0071, AP-CAPP-2016Nov18-008(e).
200 Exhibit 22011-X0005, application, Section 4.2.8, pages 1-2 of 2.
201 Proceeding 21831, ATCO Utilities pension application.
202 Exhibit 22011-X0005, application, Section 5.1, page 4 of 10.

however, the unfunded liability had decreased since the 2012 valuation report. According to the 2015 valuation report, there is a pension surplus of $14.8 million.[203]

252. In the pension application, the ATCO Utilities requested a cost recovery using a cost-of-living adjustment (COLA) based on 80 per cent of consumer price index (CPI) for 2014 and 2015 and based on 100 per cent of the CPI for 2016, to a cap of three per cent as calculated in the 2013 valuation and 2015 valuation reports.

253. In Decision 2954-D01-2015,[204] regarding the 2013 pension application, the Commission found that there had not been a material change in circumstances or changes to the provisions of the pension plan that persuaded the Commission to find that an increase in the COLA to 100 per cent of CPI to a cap of three per cent was reasonable. Decision 2954-D01-2015 reaffirmed that a COLA at 50 per cent of CPI up to three per cent was reasonable in setting just and reasonable rates, considering both the interests of the ATCO Utilities and of customers.

254. The current pension application includes the most recent actuarial evaluation of the ATCO Utilities defined benefit pension plan, and the application includes forecast defined benefit plan costs as recommended by this evaluation. ATCO Pipelines applied for defined benefit pension costs of $2.074 million for 2017 and $2.074 million for 2018[205] as placeholders in consideration of the Commission's findings in Decision 2954-D01-2015.

255. In this application, ATCO Pipelines has included 50 per cent pension COLA in compliance with past Commission directions, and it has also requested placeholder treatment to reflect a pension COLA adjustment from 50 per cent to 100 per cent pending a decision in the pension application. The revenue requirement adjustment for 2017 and 2018 would be $280,000 per year if COLA is approved at 100 per cent.[206]

Commission findings

256. On July 12, 2017, the Commission issued a decision on the pension application, Decision 21831-D01-2017.[207] In that decision the Commission stated as follows:

> 104. In summary, the Commission finds that an increase in the amount of COLA recoverable in regulated rates is not warranted at this time because of (i) the impacts of recent changes in pension legislation affecting the windup and solvency valuations conducted by Mercer for 2013 and 2015 (ii) the high degree of volatility in the unfunded liability, (iii) the reported increase in the windup liability from 2013 to 2015, and (iv) the risk that customers might bear higher special payment costs if the plan were to fall into a deficit position because the number of active DB employees contributing to the CU plan is declining. Taking into account all the relevant circumstances and the submissions of the parties, the Commission continues to be of the view that a pension cost based on

203 Proceeding 21831, Exhibit 21831-X0003, PDF pages 6 and 8.
204 Decision 2954-D01-2015: ATCO Utilities (ATCO Gas, ATCO Pipelines, and ATCO Electric Ltd.), 2013 Pension Application, Proceeding 2954, January 15, 2015. Decision 2954-D01-2015 (Errata) issued May 28, 2015.
205 These amounts are the total defined benefit pension costs including operation (O&M and A&G) and capital forecast costs.
206 Exhibit 22011-X0005, application, Section 4.2.9, pages 1-2 of 2.
207 Decision 21831-D01-2017: ATCO Utilities (ATCO Gas and Pipelines Ltd., and ATCO Electric Ltd.), 2017-2018 Pension Application, Proceeding 21831, July 12, 2017.

COLA set at 50 per cent of CPI up to a maximum of three per cent for 2014 onward is reasonable.[208]

257. The Commission directs ATCO Pipelines to incorporate the findings of Decision 21831-D01-2017 for all pension costs and COLA into its compliance filing to this decision. Based on Decision 21831-D01-2017, the Commission does not approve the placeholders for a pension COLA adjustment from 50 per cent to 100 per cent.

6.3.4 FTE forecasts

258. On an overall basis, ATCO Pipelines has forecast six additional FTEs in 2017 and three in 2018. This results in total forecast FTEs of 422 at year-end of 2017 and 425 at year-end of 2018.[209] ATCO Pipelines provided the following table showing historical approved and actual additional FTEs:

Table 22. Historical FTE hires

Permanent FTEs	2012	2013	2014	2015	2016
Forecast	N/A	26	5	33	10
Actual	18	23	22	19	6

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-033(a), PDF page 345.

259. ATCO Pipelines explained that it added a total of 70 positions between the end of 2012 to the end of 2016, compared to the approved 74 positions in that period; the difference is mainly due to the timing of hiring and the use of seasonal employees.[210]

260. ATCO Pipelines also forecast 33 temporary/seasonal employee positions in both 2017 and 2018, which is based on the positions required in 2016.[211] ATCO Pipelines states that the temporary/seasonal employees are required for execution, monitoring and tracking of capital and operational programs and are hired on an as needed basis.[212] ATCO Pipelines noted that the forecast amounts are an average amount as the actual number of seasonal/temporary employees can fluctuate throughout the year.[213]

261. The additional positions proposed in the test period are discussed individually in the table below by labour activity category.

208 Decision 21831-D01-2017, paragraph 104.
209 Exhibit 22011-X0005, application, Section 4.2.4, page 1 of 5.
210 Exhibit 22011-X0047, AP-AUC-2016NOV18-0033(a-b), PDF page 345.
211 Exhibit 22011-X0061, AP-UCA-2016NOV18-017(h), PDF page 96.
212 Exhibit 22011-X0005, application, Section 4.2.4, page 1 of 5.
213 Exhibit 22011-X0047, AP-AUC-2016NOV18-041, PDF page 378.

Table 23. Forecast additional labour positions, by labour activity category

Labour activity category	Proposed additional position	Additional non-capital FTEs	Proposed hire date	Reason for additional position
Gas control	Control centre operator	2	2017	ATCO Pipelines stated that more resources are required to monitor and control the pipeline network as the system grows and becomes more complex. To illustrate the increasing complexity of the system, ATCO Pipelines provided the number of points monitored by the Control Centre.[214] The number of points has increased by 25 per cent from 2013 to 2016. According to ATCO Pipelines, it takes three years to develop fully qualified Control Centre operators and ATCO Pipelines faces turnover in the Control Centre due to retirements and competition for skilled resources in Alberta. A minimum of "four on shift" staffing plan has been instituted to ensure adequate experience levels and coverage while allowing training of entry level operators.
	SCADA [supervisory control and data acquisition] engineer	1	2017	To implement the capital improvement budget, quality assurance and to provide increase support on cyber security, alarm management, software patch management, access management, asset classification, disaster recovery and control room management initiatives as well as to recommend and implement required updates to the SCADA system software and hardware as the pipeline network adds additional monitoring points. The SCADA engineer will also maintain documentation with respect to control room management, inclusive of capital projects, cyber security, physical security, alarm management, affiliate agreement and short-term planning functions to meet regulatory and industry requirements.
	Cyber security engineer	1	2018	To ensure that ATCO Pipelines' control system is secure from external malicious control and to ensure continued regulatory compliance. As the pipeline system grows, additional security risks are created that should be assessed and mitigated with new security control or policies under the direction of subject matter expert.
	Pipeline system optimization engineer	1	2018	For increased assessment, management and planning of the system's operation to maintain system reliability due increases in system complexity (due to, for example, changes in customer load requirements, gas quality, inlet pressures, producer receipts and programs such as ILI). This position will also assist in the development of engineering capital projects, documenting requirements of software and tools, and operational planning tools.

[214] Exhibit 22011-X0005, application, Section 4.2.1, page 5 of 14. The historical points monitored by the Control Centre were provided in Exhibit 22011-X 0171, in response to IR AP-UCA-2017APR11-003(c).

Labour activity category	Proposed additional position	Additional non-capital FTEs	Proposed hire date	Reason for additional position
Pipeline operations	Coordinator	2	2017 2018	These positions oversee the competency program and training of process control technologists. To manage increasing activities, including pipeline patrol, leak surveys and leak repairs, crossing inspections, pipelines locates, valve maintenance, compressor operations, system troubleshooting and customer response.
	Executive assistant	1	2017	To support overall administrative and clerical operations for the Senior Director, Operations, as well as senior leaders in the operations department.
Accountants	Regulatory accountant	1	Not provided	To address the increasing need for regulatory involvement in expanded facility applications, additional economic modelling requirements to support business case development. This position will also be included in the accountant rotation to address succession planning.
TOTAL additional O&M FTEs		**9.0**		
Capital programs FTEs*	236			

Sources: Exhibit 22011-X0005, application, Section 4.2.1, pages 4-8 of 14 and Section 4.2.4, pages 2-5 of 5; Exhibit 22011-X0047, AP-AUC-2016NOV18-039(a) and (e), PDF pages 370-371.
*Capital FTEs are the total number as at December 31, 2015. Capital FTE labour costs are not included in O&M costs.

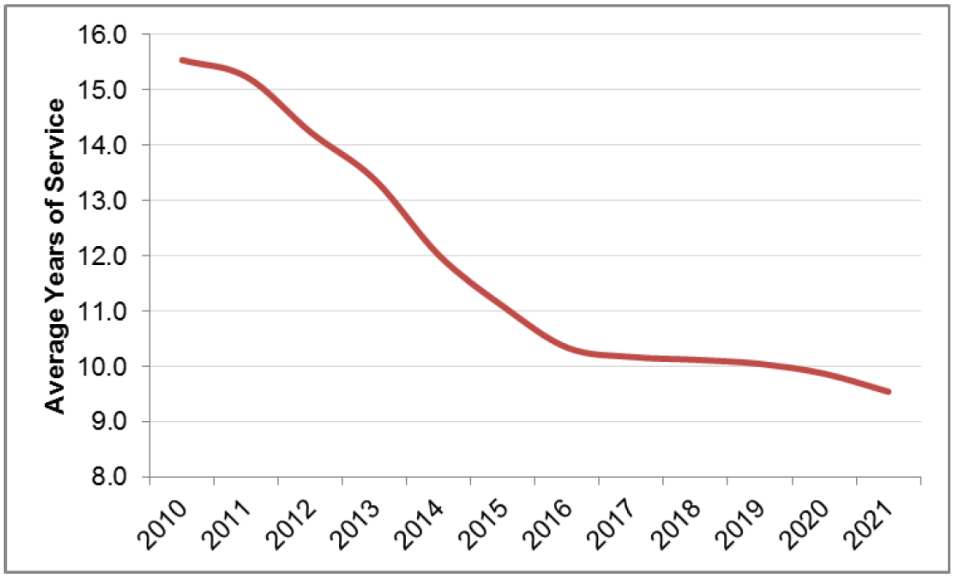
262. ATCO Pipelines confirmed that the two control centre operator positions are the same positions as those approved in the 2015-2016 GRA and due to the timing of identifying appropriate candidates, the additional FTEs are now forecast in 2017.[215]

263. ATCO Pipelines' increase in FTEs is due to increased activity levels associated with assets received from NGTL per the asset swap, pipeline integrity work, and responding to increased public expectations and compliance obligations. Additionally, ATCO Pipelines anticipates continued level of retirements during the test period and subsequent years which results in challenges in attraction and retention of resources necessary to ensure execution of all its programs.

264. ATCO Pipelines anticipates that approximately 12 per cent of ATCO Pipelines employees in leadership positions will retire during the test period and nearly all employees in the defined benefit pension plan will retire within the next 10 years. ATCO Pipelines indicated that eight per cent of its workforce is eligible to retire in the next five years. ATCO Pipelines indicated that these retirements will result in a loss of knowledge and experience, and will result in declining average years of service which will increase the need to train and develop successors to address the gap.[216] ATCO Pipelines provided the following chart to illustrate the forecast decline in average years of service:

215 Exhibit 22011-X0280, AP-UCA-2015FEB03-047(b).
216 Exhibit 22011-X0005, application, Section 4.2.3, pages 1-2 of 4.

Figure 1 Average years of service of ATCO Pipelines workforce



Source: Exhibit 22011-X0005, application, Section 4.2.3, Chart 4.2.3-2, page 2 of 4.

265. ATCO Pipelines also provided a summary of employees eligible to retire, actual retirements and the years of service of retirees since 2012:

Table 24. Summary of employees eligible to retire, actual retirements and years of service from 2012-2016

Year	Years of service			**Total retirements**	**Employees eligible to retire(1)**
	10-19	20-29	30-40		
2012A	-	-	10	**10**	**24**
2013A	-	1	14	**15**	**25**
2014A	-	1	7	**8**	**26**
2015A	2	3	19	**24**	**31**
2016A	-	-	10	**10**	**19**
Subtotal actual	*2*	*5*	*60*	*67*	*N/A*
2017F	-	-	-	-	25
2018F	-	-	-	-	32
Total	**2**	**5**	**60**	**67**	**N/A**

Notes: (1) In response to AP-AUC-2017APR11-025(a) found in Exhibit 22011-X0166, ATCO Pipelines confirmed that the amounts for total actual retirements and employees eligible to retire is provided for all ATCO Pipelines employees (in-scope and out-of-scope).

Source: Exhibit 22011-X0061, AP-UCA-2016NOV18-020(c)(i), PDF page 102; and Exhibit 22011-X0047, AP-AUC-2016NOV18-040(a), PDF page 374.

266. ATCO Pipelines noted that none of the positions retired in 2015-2016 were due to staffing reductions.[217]

267. In argument, the CCA addressed ATCO Pipelines' forecast for additional FTEs and the forecast for temporary/seasonal employees. With respect to temporary/seasonal employees, the CCA noted that the increase in use of temporary/seasonal employees from 2015 is 94 per cent. In

[217] Exhibit 22011-X0063, AP-UCA-2016NOV18-049.

the CCA's view, ATCO Pipelines' support for the forecast temporary/seasonal employees is "general in nature and does not point to the specific programs where AP would require additional temporary/seasonal employees." The CCA asserted that ATCO Pipelines' forecast is over-stated and recommended a reduction of eight temporary/seasonal positions in each test year.[218]

268. With respect to the forecast additional FTEs in the test year, the CCA argued that ATCO Pipelines had a forecast to actual variance of 70 positions in 2015 and of 64 positions for 2016, which is indicative of continual over-forecasting. Additionally, the CCA expressed concern that "even if the additions occur, it is unlikely that the position will be filled at the beginning of each year." The CCA recommended that ATCO Pipelines be directed to use 416 FTEs for both 2017 and 2018 (or that none of the additional forecast FTEs be allowed) and that ATCO Pipelines be directed to update tables 4.2.4-1 and 4.2.4-2 of the application in the compliance filing.[219]

269. In reply argument, ATCO Pipelines addressed the CCA's argument on temporary/seasonal employee forecasts but by generally stating that "the focus should be on the requested costs and the associated activities being performed. While FTEs can change, if the work simply moves to temporary or contract workers, it may not impact cost."[220] ATCO Pipelines stated that it assesses its labour requirements and ensures that resources, a mix of FTEs, temporary staff and contractors, are available to complete activities. ATCO Pipelines argued that using temporary staff for peak work periods avoids potential severance costs.

270. With respect to the requested additional FTEs, ATCO Pipelines replied to the CCA's argument by arguing that the CCA did not provide any evidence as to why the forecast additional FTEs are not needed for utility service. ATCO Pipelines further noted that the CCA's analysis is flawed in that it assumes staff additions occur on January 1 of each year, whereas ATCO Pipelines assumed a mid-year start for forecast FTE additions. ATCO Pipelines submitted that the forecast FTEs and temporary/seasonal employees are required to carry out its responsibilities over the test period.[221]

Commission findings

271. ATCO Pipelines provided an explanation of the responsibilities of each requested additional FTE and provided quantitative evidence, where available, to support its justification that the additional FTEs are required as a result of ATCO Pipelines' increasingly complex pipeline network, additional assets owned by ATCO Pipelines as a result of the asset swap, increased regulatory compliance requirements, increased public engagement and safety expectations and the need to attract, retain and train resources to address employee retirements.

272. The Commission has reviewed the evidence provided on the record in justification of the forecast additional FTEs and notes that ATCO Pipelines had previously recovered costs through its 2015-2016 revenue requirement forecast for the two additional control centre operator positions identified in this application. The Commission is prepared to accept ATCO Pipelines' explanation that the positions were not filled in the previous test period due to the timing of identifying appropriate candidates. The Commission's concern with previous recovery of costs associated with adding these positions is also partially addressed by ATCO Pipelines' historical forecasting accuracy for additional FTEs, in particular, that it had forecast 74 additional FTE in

218 Exhibit 22011-X0177, CCA argument, PDF pages 26-27.
219 Exhibit 22011-X0177, CCA argument, PDF pages 28-29.
220 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 63.
221 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 63-64.

the past four years and had actually added 70 positions. The Commission considers that this variance is within a reasonable range.

273. The Commission also accepts ATCO Pipelines' explanation that it employs temporary/seasonal employees to address fluctuations in work load and agrees with ATCO Pipelines that the use of temporary/seasonal employees avoids potential severance costs. The Commission finds that the evidence on the record is insufficient to warrant a disallowance of forecast temporary/seasonal employees, as requested by the CCA.

274. Accordingly, the Commission approves the FTE forecast as filed.

6.3.5 Vacancy rates

275. The vacancy rate is used to approximate the time lag between a position becoming vacant and the position being filled. The vacancy rate was previously determined using a five-year average. In this application, in recognition of changes in economic growth from the last five years and that the previous years represented years where unemployment was at record low levels with labour shortages, ATCO Pipelines based the vacancy rate on an analysis of vacant O&M positions in 2016. ATCO Pipelines forecast an overall vacancy rate of 2.7 per cent for both 2017 and 2018. The vacancy rate for O&M is forecast at 2.1 per cent.[222] ATCO Pipelines provided the vacancy rate calculation for 2016 in response to an IR:

Table 25. Vacancy rate calculation

Vacancy rate parameters	Total vacancy rate	Capital vacancy rate	O&M vacancy rate
Vacant weeks	594	380	221
Available position weeks	22,204	11,768	10,436
Vacancy rate	**2.7%**	**3.2%**	**2.1%**

Source: Exhibit 22011-X0061, AP-UCA-2016NOV18-025(d), PDF page 112.

276. Also in response to IRs, ATCO Pipelines provided unemployment rates for Alberta, for context of the economic climate in Alberta:

Table 26. Alberta unemployment outlook

	2015 actual	2016 actual	2017 forecast (%)	2018 forecast (%)
Alberta unemployment rates as at November 2016(1)	-	-	7.4	6.2
Alberta unemployment rates as at April 2017(2)	6.0	8.1	8.3	7.7

Source: (1) Exhibit 22011-X0071, AP-CAPP-2016NOV18-004(c).
(2) Exhibit 22011-X0166, AP-AUC-2017-APR11-023(a-b).

277. ATCO Pipelines stated that the forecast vacancy rate does not consider improvement to Alberta's unemployment rate for 2018.[223]

222 Exhibit 22011-X0005, application, Section 1.3, pages 1 and 3 of 4.
223 Exhibit 22011-X0061, AP-UCA-2016NOV18-025(e), PDF page 112.

278. In argument, the CCA provided the following summary table:

Table 27. CCA analysis of vacancy rate using the five-year average methodology

	A 2017-2018 ATCO Pipelines forecast four year average (based on 2012-2015) (%)	B 2016 ATCO Pipelines estimated actual (%)	C 2017-2018 CCA recommended five-year average (based on 2012-2016) (%)
Total vacancy rate	6.2	2.7	5.5
Capital vacancy rate	7.6	3.2	6.7
O&M vacancy rate	5.3	2.1	4.7

Source: Exhibit 22011-X0177, CCA argument, PDF pages 24-25. Columns A and B in the CCA's argument were populated from ATCO Pipelines' response to AP-UCA-2016NOV18-025(c-d) in Exhibit 22011-X0061.

279. The CCA asserted that the change in vacancy rates between the four year average (in column A) and the estimated vacancy rate in 2016 (in column B) represents a "significant change in employment trend that the CCA suggests is unrealistic."[224]

280. The CCA further noted that 24 vacancies remained from the approved positions as of October 31, 2016, which results in a vacancy of 5.6 per cent, of which ATCO Pipelines was actively recruiting to fill 13 positions. In the CCA's view, it is unrealistic to expect that ATCO Pipelines would be successful in filling 13 vacancies prior to year-end and therefore, ATCO Pipelines' forecast vacancy rate is under-stated. The CCA recommended that the vacancy rate be set to 6.1 per cent, which is the five-year average of 2012-2016, using the vacancy rate of 5.6 per cent for 2016.[225]

281. In argument, the UCA noted that ATCO Pipelines' rebuttal revised salary escalation forecasts to reflect an improving economy, but it did not revise its vacancy rates to reflect the same. In the UCA's view, ATCO Pipelines' evidence is insufficient to support a departure from the previously approved methodology of calculating vacancy rates using a five-year average. The UCA therefore recommended that ATCO Pipelines be directed to use a five-year average.

282. In reply argument, ATCO Pipelines stated that the UCA did not provide any reason why a deviation from the five-year average would not be required. ATCO Pipelines also addressed the CCA argument, noting that the CCA's vacancy rate calculation of 5.6 per cent is incorrect as the number of days was not factored into the calculation. ATCO Pipelines also argued that the CCA's argument did not account for the fact that most of the vacant positions in 2016 would be filled by the end of the year. ATCO Pipelines reiterated that the Commission had indicated in Decision 3577-D01-2016 that a deviation from the five-year methodology may be required due to the current economic environment. In ATCO Pipelines' submission, the last five years saw unemployment at record low levels, labour shortages and the oil and gas sector was experiencing high growth. Additionally, ATCO Pipelines noted that unemployment rates have not changed significantly since the application filing. ATCO Pipelines maintained that its applied-for vacancy rates are reasonable.[226]

224 Exhibit 22011-X0177, CCA argument, PDF page 25.
225 Exhibit 22011-X0177, CCA argument, PDF pages 25-26.
226 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 41-42 and 62-63.

Commission findings

283. In Decision 3577-D01-2016, the Commission found that adjustments to the vacancy rate calculation methodology could be required to account for anomalies in the economic environment.[227] In this application, ATCO Pipelines has deviated from its past practice of determining its vacancy rate using a five-year average of historical rates, to account for the current high unemployment and lower economic growth conditions in Alberta. In recognition of the Commission's finding in the last GRA and in light of the continuing decline in the Alberta economic environment, the Commission accepts ATCO Pipelines' proposed methodology to determine its vacancy rate in this application.

284. However, the Commission continues to consider that, given the difficulty in forecasting vacancies due to uncertainties in ATCO Pipelines' operating environment, using a five-year average of historical rates is a reasonable methodology to estimate vacancy rates, and directs ATCO Pipelines to use this methodology in its next GRA, or to provide an explanation of why this methodology is not appropriate for the test period.

285. The Commission has reviewed ATCO Pipelines' forecast vacancy rate and the calculations provided by ATCO Pipelines to determine vacancy rate and notes that the calculation is based on estimated 2016 actual data. In past decisions, the Commission has indicated a preference for the best available information when rendering a decision.[228] The Commission considers that, in this case, an update to the 2016 actual vacancy rate used to determine the 2017 and 2018 vacancy rate is appropriate. The Commission therefore directs ATCO Pipelines in its compliance filing to recalculate the 2017 and 2018 forecast O&M vacancy rate, using the methodology described in the application and provided in response to AP-UCA-2016NOV025(d), using the final actual 2016 vacancy rate as at December 31, 2016.

6.4 O&M supplies expenses

286. In the application, ATCO Pipelines provided the following table, which was expanded in response to an IR, which breaks out the components of O&M supplies and shows the actual costs for the previous test period and forecast costs for the current test period:

[227] Decision 3577-D01-2016, paragraph 379.
[228] For example, see paragraph 749 of Decision 20272-D01-2016.

Table 28. Operations and maintenance supplies

	2013 actual	2014 actual	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)					
Contract services	5,283	5,040	6,686	6,337	9,589	10,623
Utilities	1,407	1,454	1,343	1,495	1,537	1,573
Company vehicles	919	986	961	976	1,003	1,026
Fringe benefits	5,021	3,455	3,511	3,244	3,410	3,531
Travel, accommodations, and meals	469	379	456	458	473	484
NGTL asset swap	0	0	0	1,800	2,393	2,448
Materials, equipment, and tools	3,027	3,127	4,691	3,540	3,663	3,747
Year-end accrual adjustment	335	(335)	0	0	-	-
Total	**16,461**	**14,106**	**17,648**	**17,850**	**22,068**	**23,432**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-001(a) Attachment, Schedule 4.2.1-4.

287. Contract services listed in the table above includes costs that ATCO Pipelines incurs through contractors, such as for locates, measurement verification and regulatory compliance initiatives, right-of-way brushing, cathodic protection, SCADA maintenance, aerial surveys, gas composition analysis for contract specification and measurement, leak detection surveys, third-party crossing inspections, and vegetation control. Generally, contract services are seasonal in nature, have specialized requirements or relate to the manufacturer's support of equipment. Contract services are forecast to increase as ATCO Pipelines increases its use of contractors for measurement verification and regulatory compliance because it does not have the internal resources with appropriate qualifications. This is partially offset by a decrease in contract pricing for leak detection surveys and aerial surveys.[229] Additional contract services are also required for a third-party quality control review of ATCO Pipelines' measurement installations to confirm compliance with codes, correct measurement equipment programming and installation and correct choice of measurement equipment for volumes and load profiles. This quality control review is estimated to cost $1.0 million and $1.1 million in 2017 and 2018 respectively. With respect to the regulatory compliance initiative, ATCO Pipelines forecasts $0.8 million and $1.3 million in 2017 and 2018 respectively for a third-party review to be completed in 2017 and for preparation and implementation of requirement actions in the remainder of 2017 and into 2018.

288. Utilities include costs incurred for electric power and other utility service for its office buildings and meter/regulating/compressor stations. Fringe benefit costs include costs such as employment insurance, Workers Compensation Board, Canada Pension Plan, company pension, employee health and dental plans, group life insurance and post-employment benefits. The decrease in 2016, which carried forward into the test period, reflects the impact of the new pension actuarial valuation completed at the end of 2015. ATCO Pipelines pension costs will be discussed further in Section 6.3.3.

289. ATCO Pipelines indicated that utilities; company vehicles; and travel, accommodation, and meals costs are forecast to increase due to inflation. The forecast increase for materials,

[229] Exhibit 22011-X0091, AP-UCA-2016NOV18-019(a), PDF page 9.

equipment and tools costs reflects inflation and current market pricing for items that are affected by commodities pricing such as nitrogen and compressor oil.[230]

290. ATCO Pipelines assumed inflation rates of 2.6 per cent and 2.3 per cent for supplies in 2017 and 2018, respectively. The forecast inflation rate was based on the Alberta CPI published in May 2016 by the Conference Board of Canada.[231] In response to a first round IR, ATCO Pipelines stated that CPI, which is an indicator of changes in consumer price, is commonly used to forecast supplies inflation and is consistent with the direction provided by the Commission in Decision 3577-D01-2016.[232] ATCO Pipelines provided an updated Alberta CPI of 2.3 per cent for 2017 from the Summer 2016 Conference Board of Canada outlook, however, ATCO Pipelines submitted that this change was not significant therefore no updates to the application were necessary.[233] In response to a second round IR, ATCO Pipelines provided a further update to the Alberta CPI but maintained that its key assumptions set out in the application remained reasonable. The updated Alberta CPI from the Winter 2017 Conference Board of Canada outlook was 1.9 per cent for 2017 and 2.3 per cent for 2018.[234]

Commission findings

291. The Commission notes that ATCO Pipelines had provided updated CPI forecasts in response to IRs, but that it did not update its application as it considered its forecasts as provided in the application continue to be reasonable.

292. Where possible, the Commission relies on the best available information when rendering a decision. As the board stated in Decision in 2006-004,[235] the best available information includes information which has been updated after the preparation of the initial application, including actuals:

> In recent years, when confronted with the question of whether or not to consider events that have occurred after the preparation of revenue requirement forecasts, the Board has usually taken the position that such information will be used in assessing the reasonableness and accuracy of the forecasts and the methodology utilized in preparing the forecasts. The Board has not, however, substituted the forecasts with the updated information, except with respect to certain specific forecast items. For example, the Board has updated interest rate forecasts in determining the cost of capital, income tax rates, opening balances for plant property and equipment and has excluded amounts forecast for capital projects that did not proceed. The Board has determined that the use of updated information in these particular types of categories was in the overall public interest and had as its objective an appropriate revenue stream without undue benefit or detriment to the regulated utility. The utility has also always been able to update its application and its forecasts to reflect any unforeseen increases in costs. The Board continues to be of the view that this is the appropriate use of information that becomes available subsequent to the preparation of the forecasts underpinning an application.

230 Exhibit 22011-X0005, application, Section 4.2.1, pages 8-13 of 14.
231 Exhibit 22011-X0005, application, Section 1.3, page 4 of 4.
232 Exhibit 22011-X0071, AP-CAPP-2016NOV18-003(a).
233 Exhibit 22011-X0047, AP-AUC-2016NOV18-004(a), PDF page 66.
234 Exhibit 22011-X0166, AP-AUC-2017APR11-019, PDF pages 59-60.
235 Decision 2006-004: ATCO Gas, 2005-2007 General Rate Application, Phase I, Application 1400690-1, January 27, 2006.

> On the basis that the Board should have the best available information, the Board has expressed a preference in having actuals for the full year prior to the test year where possible. Providing the Board with the best available information at the time it must make its decision, will assist the Board in determining a revenue requirement for the utility that most closely matches current expectations and conditions. Properly considered, this should reduce the initial forecasting risk to the utility and reduce the possibility of overpayment by ratepayers.[236]

293. The Commission considers that the updated CPI for 2017 and 2018, provided in response to the second round of IRs, is a more reasonable forecast for O&M supplies inflation. Accordingly, the Commission directs ATCO Pipelines, in the compliance filing, to update the O&M supplies forecasts to use an inflation factor of 1.9 per cent for 2017 and 2.3 per cent for 2018. Any specifically identified cost differences, namely the regulatory compliance initiative, quality control review and decreased costs due to the pension valuation, are approved, subject to any adjustments required as a result of the adjustment to supplies inflation.

6.5 International Organization for Standardization (ISO) – International Standards 55001 (asset management update)

294. In Decision 3577-D01-2016, the Commission found that costs associated with the gap analysis for asset management to comply with ISO 55001 were not sufficiently supported:

> 409. ISO 55001 certification is not currently required to comply with the standards of any regulatory body. There is also insufficient evidence on the record to support that the program is required in addition to the CSA Z662 standard or to maintain safe or reliable service, but rather, ATCO Pipelines indicated that ISO 55001 would act as a "check and balance."
>
> 410. Accordingly, the Commission directs ATCO Pipelines to remove the $1.6 million related to the ISO 55001 from revenue requirement during the test years. ATCO Pipelines may choose to provide a proposal for a gap analysis related to ISO 55001 certification in a future GRA.[237]

295. In this application, ATCO Pipelines provided an update on asset management activities since its 2015-2016 GRA. ATCO Pipelines stated that in the 2015-2016 test period, it had proceeded with the third-party gap analysis to assess its current processes and documentation relative to the ISO 55001 standard. ATCO Pipelines provided a copy of the gap analysis completed, in response to an IR.[238] The costs for the ISO 55001 gap analysis and roadmap were charged as O&M expenses.[239]

296. Further, ATCO Pipelines clarified that it is not pursuing ISO 55001 certification in the test period, though that should not preclude it from doing so in the future.[240] No costs associated with ISO 55001 certification were included in opening rate base.[241]

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236 Decision 2006-004, page 3.
237 Decision 3577-D01-2016, paragraphs 409-410.
238 Exhibit 22011-X0047, AP-AUC-2016NOV18-010(a) Attachments 1 and 2, PDF pages 89-226.
239 Exhibit 22011-X0047, AP-AUC-2016NOV18-010(d), PDF page 88.
240 Exhibit 22011-X0005, application, Section 1.5, PDF pages 56-57.
241 Exhibit 22011-X0047, AP-AUC-2016NOV18-010(c), PDF page 87.

297. ATCO Pipelines also undertook a comparison between the ISO 55001 standard and CSA Z662-15 requirements for asset management. In ATCO Pipelines' submission, the comparison between ISO 55001 and CSA Z662-15 confirmed that "strong alignment exists between the two standards." ATCO Pipelines stated that, in this test period, its objective is for ongoing compliance with CSA Z662-15.

298. Certain IT projects related to this asset management initiative were removed from forecast capital expenditures and capital additions in the last GRA, at the Commission's direction.[242] ATCO Pipelines has applied to include these projects' capital additions into opening rate base; in ATCO Pipelines' view, the Commission's direction did not disallow these costs going forward but rather, only for the 2015-2016 test period.[243] Those IT projects are discussed further in Section 4.2.7.2 above.

Commission findings

299. In Decision 3577-D01-2016, the Commission did not object to ATCO Pipelines conducting its "gap analysis" for asset management per se but agreed with Calgary and the CCA that the expenditures for a gap analysis were premature. The Commission indicated that it was unclear what value the gap analysis would provide to ATCO Pipelines' asset management in the test years. ATCO Pipelines was directed to remove certain expenditures related to ISO 55011 from revenue requirement.[244]

300. In this application, ATCO Pipelines proposed to include certain O&M expenses incurred to complete the gap analysis and to complete a comparison of ISO 55001 requirements to CSA Z662-15 requirements for asset management. The Commission notes that ATCO Pipelines has indicated that it is not pursuing ISO 55001 certification, but rather is targeting ongoing compliance with CSA Z662-15. Given the alignment between ISO 55001 and CSA Z662-15 and the requirement for ATCO Pipelines to be in compliance with CSA Z662-15, the Commission considers that the two reports, i.e., the gap analysis and comparison of ISO 55001 to CSA Z662-15, result in an overall picture of any deficiencies in ATCO Pipelines' asset management practices and therefore its compliance with CSA Z662-15. For this reason, the Commission is prepared to approve the O&M costs associated with those reports.

6.6 Administrative and general costs

301. A&G costs are composed of the labour and supplies costs for the general, financial, human resources, corporate communication, regulatory and information management functions of ATCO Pipelines, the costs for legal, audit and consulting services and the costs for insurance, injuries and damages, hearing costs and employee benefits.[245]

302. In addition to inflation, ATCO Pipelines stated that the key drivers of the forecast increases in the test years (compared to 2016 estimated actuals) are due to:

- Additional resources to support formal change management processes and training established in CSA Z662.

242 Decision 3577-D01-2015, paragraphs 239-241.
243 Exhibit 22011-X0061, AP-UCA-2016NOV18-030, PDF page 122.
244 Decision 3577-D01-2016, paragraph 407.
245 Exhibit 22011-X0005, application, Section 4.2, page 1 of 4.

- Additional requirements for increased engagement to address public and employee expectations for consultation and communication.
- Additional recruiting and training support for new hires and succession planning.[246]

303. As with O&M supplies discussed above, A&G supplies were inflated by 2.6 per cent and 2.3 per cent in 2017 and 2018, respectively.

304. In the application, ATCO Pipelines provided the following table, which breaks out the components of A&G and the actual and forecast costs:

Table 29. Administration and general expenses by prime account

	2013 actual	2014 actual	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)					
Advertising	732	735	725	848	1,015	1,129
Administration	17,440	15,867	15,249	16,922	17,655	17,932
Special services	1,742	530	1,325	1,567	1,244	1,350
Insurance	2,141	1,926	2,060	2,362	2,671	2,719
Employee benefits	3,301	3,177	2,397	2,155	2,394	2,499
Other admin and general	4,603	4,672	7,957	6,203	4,839	4,0902
Recovery of costs – A&G	(75)	(47)	(45)	(46)	(47)	(48)
Less disallowed costs	(2,982)	(3,625)	(1,464)	(2,102)	(1,802)	(1,920)
Total	**26,902**	**23,235**	**28,204**	**27,909**	**27,969**	**28,563**

Exhibit 22011-X0047, AP-AUC-2016NOV18-001(a) Attachment, Schedule 4.2.2-2.

305. ATCO Pipelines stated that the increase in A&G in 2017 and 2018 was due to increases in administration labour and administration supplies. Administration labour increases are due to inflation and the addition of staff in the area of regulatory. Labour supplies increases are due to inflation; training costs for talent development; increased public, customer and employee engagement; and implementation of change management training.

306. The affiliate services cost categories are forecast to remain constant from 2016 to 2018. Changes in the other admin and general cost category are forecast to be lower in 2017 due to lower hearing costs, related to the timing of regulatory proceedings. Any variations between forecast and actuals for hearing costs are captured in the hearing costs reserve account.[247] Changes in disallowed operating costs are mainly attributed to the uneven occurrence of legal and consulting fees related to regulatory proceedings.[248]

Commission findings

307. The Commission has reviewed the forecast A&G costs and finds that the forecasts are reasonable given the information provided in Table 29 above and approves the forecast A&G costs, subject to the findings above regarding supplies inflation. Consistent with the direction on supplies inflation in Section 6.4, the Commission directs ATCO Pipelines to revise its forecast A&G costs to use the approved 1.9 per cent for 2017 and 2.3 per cent for 2018, for supplies

[246] Exhibit 22011-X0005, application, Section 4.2.2, pages 1-3 of 6.
[247] Exhibit 22011-X0091, AP-UCA-2016NOV18-0020(b), PDF page 10.
[248] Exhibit 22011-X0005, application, Section 4.2.2, pages 4-5 of 6.

inflation, where applicable. The Commission further directs ATCO Pipelines to provide a revised Table 29 in its compliance filing to this decision.

6.7 IT costs

308. On June 4, 2015, the Commission issued Bulletin 2015-11[249] which initiated the ATCO Utilities IT common matters proceeding (Proceeding 20514) to examine IT costs related to the IT services MSAs. Accordingly, the remaining IT issues to be examined in this proceeding are IT volumes, ATCO Pipelines' planning and governance of its IT architecture and infrastructure and related expenses. Therefore, this decision will only examine those IT issues which are at issue in this proceeding.

309. IT services which are charged to operating costs include costs to operate, maintain and distribute existing and new IT applications required by ATCO Pipelines to manage its financial, human resources and operational activities. These services also include charges for the provision of hardware, e.g., PCs, laptops, monitors; network, voice (telecommunications), data storage, printing management and infrastructure; and ad hoc employee service requests. These services are provided to the ATCO Utilities by Wipro.[250]

310. The following table shows ATCO Pipelines' forecast total IT spend:

Table 30. Breakdown of forecast IT costs

	2017 forecast	2018 forecast	Total (test years)
	($000)		
IT O&M			
Outsourcing	4,003	3,770	7,773
Internal IT function	197	203	400
ATCO Chief Information Officer (CIO) Office	211	216	427
Subtotal IT O&M	*4,411*	*4,189*	*8,600*
IT indirect capital			
Outsourcing	1,544	1,447	2,991
Internal IT function	185	191	376
Subtotal IT indirect capital	*1,729*	*1,638*	*3,367*
IT direct capital			
Outsourcing	2,859	2,150	5,009
Non-outsource capital	150	113	263
Subtotal IT software project capital	*3,009*	*2,263*	*5,272*
Total	**9,149**	**8,090**	**17,239**

Source: Exhibit 22011-X0176.01, Calgary argument, PDF page 10 (which in turn references Exhibit 22011-X0094,AP-CAL-2016NOV18-009(a) Attachment, rows 6, 11, 15, 7, 12, 8 and 19).

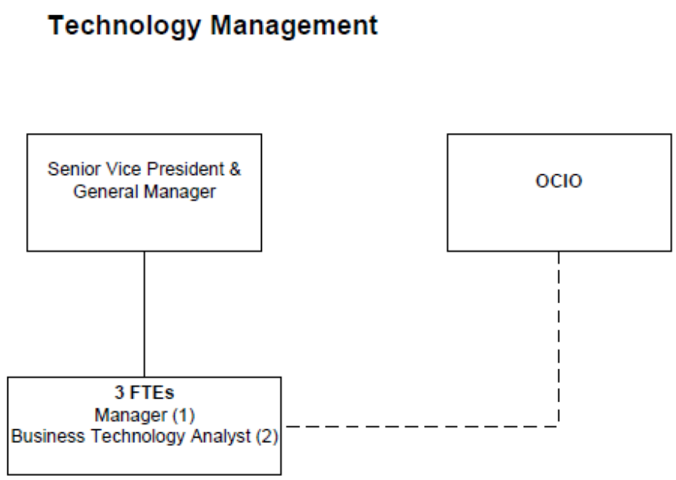
311. ATCO Pipelines provided the organizational chart (shown below) for its internal IT function, and stated that the number of FTEs in the internal IT function has not changed since 2012. Internal FTEs in IT are split approximately equally between O&M and indirect capital

[249] Bulletin 2015-11, Initiating the ATCO Utilities information technology common matters proceeding to examine IT costs related to the master services agreements between the ATCO Utilities and Wipro Solutions Canada Limited, June 4, 2015.

[250] Exhibit 22011-X0005, application, Section 4.2.5, page 1 of 2.

(1.5 FTEs in O&M and 1.5 FTEs in indirect capital). ATCO Pipelines noted that the Office of the Chief Information Officer (OCIO) provides IT management and governance for the corporate strategy/policy to ATCO Pipelines.[251]

Figure 2 Internal IT function organization structure



Source: Exhibit 22011-X0067, AP-CAL-2016NOV18-003(a), PDF page 8.

312. In the application, ATCO Pipelines also provided the actual IT costs in 2015, estimated actual costs in 2016, and the forecast costs for 2017 and 2018, charged to operations. ATCO Pipelines noted that the IT operating costs represent 1.5 per cent of total revenue requirement.[252] The IT costs were derived using the Wipro MSA rates and are shown in the table below:

Table 31. IT services charged to operations

	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($)			
Total	3,588,000	4,068,000	4,003,000	3,770,000

Source: Exhibit 22011-X0005, application, Section 4.2.5, page 1 of 2.

313. ATCO Pipelines explained that its IT costs are forecast to decrease in 2017 and 2018 primarily due to reduced application management services fees and storage costs related to the planned replacement of the current GIS system, as well as reduced rates per the Wipro MSA.[253]

314. ATCO Pipelines provided the forecast IT volumes in Section 4.2.5 – Attachment with its application.[254] ATCO Pipelines stated that the IT volumes were developed using actual volumes from 2015 and estimated actual volumes from 2016, adjusted for known changes.[255] ATCO Pipelines confirmed that the forecast IT volumes were not developed using Gartner metrics.[256] ATCO Pipelines explained that employee count and IT applications are the largest drivers for IT volumes and, as there was little fluctuation in employee counts and IT application volumes and units throughout 2016, ATCO Pipelines considered it reasonable to use the 2016 volumes as a

251 Exhibit 22011-X0067, AP-CAL-2016NOV18-003(a), (b), (c) and (g), PDF pages 8, 9 and 11.
252 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 45.
253 Exhibit 22011-X0005, application, Section 4.2.5, pages 1-2 of 2.
254 Exhibit 22011-X0002.
255 Exhibit 22011-X0005, application, Section 4.2.5, page 1 of 2.
256 Exhibit 22011-X0093, AP-CAL-2016NOV16-005(f-g), PDF page 6.

starting point to forecast volumes in the test period. The known changes which caused adjustments to the IT volumes forecasts were FTE fluctuations and application changes identified in the 2017-2018 IT business cases. ATCO Pipelines further adjusted the O&M IT volumes down in 2018 to accommodate O&M storage savings achieved as a result of the 2017-2018 GIS Replacement project.[257] IT projects and offshoring are discussed in Section 4.2.7 above. Similarly, Calgary's argument with respect to IT project related forecasts and the use of offshore IT resources are also discussed in Section 4.2.7 above.

315. With respect to IT governance structures and ATCO Pipelines' governance responsibilities related to the management of the MSA, ATCO Pipelines stated that it reviews and validates its outsources IT costs using a variety of measurements, governance process and customer surveys to ensure an appropriate quality of service and responsiveness of service. Additionally, ATCO Pipelines completes a monthly and annual review of service volumes and IT cost validation based on outsourcer service provision report and the monthly invoices. Finally, IT service level agreements and IT key performance indicators are measured and reported monthly.[258]

316. In response to an IR, ATCO Pipelines confirmed that it has an IT strategic plan which is developed and updated internally, without input from external advisors. The strategic plan is updated and reviewed annually to confirm its continuing relevance.[259]

317. Calgary stated that it had reviewed the requested O&M volumes and had no comment.[260] No other intervener addressed IT volumes in evidence, argument or reply argument.

318. Calgary did, however, request that the Commission direct ATCO Pipelines to provide IT volumes at the level of detail found in Section 4.2.5 of this application, in all future GRAs. Calgary submitted that this level of detail is required "in order to allow any future GRA decision or IT common maters decision to adjust the IT O&M, indirect capital and direct capital costs for project disallowances or fair market value."[261]

Commission findings

319. The Commission's findings with respect to IT volumes associated with the 2015-2016 disallowed IT projects can be found in Section 4.2.7.2 above.

320. The Commission is cognizant that there is an ongoing ATCO Utilities IT common matters proceeding, Proceeding 20514,[262] to address the MSA pricing. Given that the total forecast IT costs are calculated from the forecast IT volumes and the negotiated IT pricing, total IT costs are to be treated as placeholders in this proceeding, pending a determination in Proceeding 20514.

321. The Commission considers that the GRA proceeding remains the appropriate forum in which to examine IT volumes. This is consistent with Decision 2014-169, where the Commission found, "The pricing for ATCO Electric and ATCO Gas, as determined in

257 Exhibit 22011-X0047, AP-AUC-2016NOV18-031, PDF pages 342-343.
258 Exhibit 22011-X0005, application, Section 4.2.5, page 2 of 2.
259 Exhibit 22011-X0067, AP-CAL-2016NOV18-004(a-c).
260 Exhibit 22011-X0176.01, Calgary argument, PDF page 24.
261 Exhibit 22011-X0176.01, Calgary argument, PDF page 26.
262 Proceeding 20514, the ATCO Utilities IT common matters proceeding.

accordance with this decision, shall be applied to forecasted volumes through each respective utility's GRA/GTA process."[263]

322. The Commission agrees with Calgary that, in order to evaluate the forecast IT volumes, to which pricing will be applied as determined in the IT common matters proceeding, it is necessary for all IT related volume data to be filed in the next GRA proceeding. The Commission notes that its direction in Decision 3577-D01-2016 was for ATCO Pipelines to file forecast IT volumes for the test period and actual volumes from the previous test period in all future GRA proceedings;[264] the Commission considers this direction to be ongoing.

323. The Commission has examined the evidence on the record for forecast IT volumes and finds that the forecast O&M IT volumes are reasonable. Accordingly, the Commission approves the forecast O&M IT volumes, subject to any adjustments required due to directions elsewhere in this decision.

7 Return on rate base

324. Return on rate base is calculated after determining the utility's capital structure, which is comprised of long term debt, preferred shares, and common equity, and applying the approved cost rate to each of these components. ATCO Pipelines noted that it is not forecasting the issuance of any preferred shares in the test period.

325. On October 7, 2016, the Commission issued Decision 20622-D01-2016,[265] the 2016 generic cost of capital (GCOC) decision. In its decision, the Commission approved a rate of return (ROE) on common equity of 8.50 per cent for 2017 for ATCO Pipelines. The Commission also approved a capital structure of 37 per cent equity and 63 per cent debt for ATCO Pipelines for 2017.[266] The ROE and capital structure were approved on an interim basis for 2018 and each subsequent year thereafter, unless otherwise directed by the Commission.[267]

7.1 Return on equity and capital structure

326. ATCO Pipelines' application, updated in response to an IR, included an ROE of 8.50 per cent for 2017 and a capital structure of 37 per cent equity and 63 per cent debt for 2017, as per the Commission's 2016 GCOC decision.[268] ATCO Pipelines submitted that it had included the same ROE and capital structure for 2018 as a placeholder pending the outcome of a future GCOC proceeding.[269]

Commission findings

327. The Commission finds ATCO Pipelines has incorporated the most recently approved ROE of 8.50 per cent for 2017 into its application on a final basis, and for 2018 on an interim basis. ATCO Pipelines' response in AP-AUC-2016NOV18-003(a) Attachment, Schedule 3.1-1, is consistent with the Commission's findings in Decision 20622-D01-2016, the 2016 GCOC

263 Decision 2014-169 (Errata), paragraph 468.
264 Decision 3577-D01-2016, paragraphs 452.
265 Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.
266 Decision 20622-D01-2016, Table 1.
267 Decision 20622-D01-2016, paragraph 623.
268 Exhibit 22011-X0047, AP-AUC-2016NOV18-003(a) Attachment, Schedule 3.1-1, PDF page 42.
269 Exhibit 22011-X0005, application, Section 1.2, page 2 of 4.

decision. The Commission finds ATCO Pipelines' use of the approved capital structure from the 2016 GCOC decision of 37 per cent equity and 63 per cent debt for 2017 on a final basis, and for 2018 on an interim basis, included in ATCO Pipelines' response to AP-AUC-2016NOV18-003(a) Attachment, Schedule 3.1-1 to be consistent with the Commission's findings in Decision 20622-D01-2016. The ROE and capital structure included in ATCO Pipelines' application are approved, as filed.

7.2 Costs associated with long-term debt

328. ATCO Pipelines forecast a 2017 long-term debt issuance of $174,000,000 at 4.02 per cent and a 2018 long-term debt issue of $100,000,000 at 4.62 per cent.[270] ATCO Pipelines derived its forecast cost of new debt by using a method consistent with what was approved in Decision 3577-D01-2016, where the mid-year forecast is determined using the year-end bank forecasts for 2017 and 2018, calculating the mid-year of each bank forecast and taking a simple average of the mid-year values provided by the four banks.[271]

329. The tables below show ATCO Pipelines' debt rate forecast:

Table 32. ATCO Pipelines' 2017 debt rate forecast

Description	2017
	(%)
Consensus forecast	
July 2017	1.50
2017 mid-year proxy	1.50
10-30 year bond differential	0.72
Credit spread	1.80
2017 forecast debt rate	**4.02**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-008.

330. ATCO Pipelines submitted that the most recent *Consensus Forecast*, published in July 2016, did not provide a December 2016 or a December 2017 forecast and as such a mid-year calculation was not possible. Instead, ATCO Pipelines used the July 2017 forecast as a proxy for a mid-year forecast. The 10- to 30-year bond differential was calculated as the average of the observed differential between the 10-year and 30-year Government of Canada bond yield over July 2015 to July 2016.[272] The credit spread was CU Inc.'s most recent actual credit spread.[273]

270 Exhibit 22011-X0005, application, Section 3.1, page 1 of 9.
271 Exhibit 22011-X0005, application, Section 1.3, page 4 of 4.
272 Exhibit 22011-X0047, AP-AUC-2016NOV18-008, PDF page 73.
273 ATCO Pipelines is a division of ATCO Gas and Pipelines Ltd., which is a wholly owned subsidiary of CU Inc. CU Inc. is the entity that goes to market to raise debt for ATCO Gas and Pipelines Ltd.

Table 33. ATCO Pipelines' 2018 debt rate forecast

Description	2018
	(%)
Consensus forecast	
July 2017	1.50
December 2018	2.70
2018 mid-year	2.10
10-30 year bond differential	0.72
Credit spread	1.80
2017 forecast debt rate	**4.62**

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-008.

331. For ATCO Pipelines' 2018 debt rate forecast, the 10-year rate forecast for December 2018 of 2.70 per cent was obtained from the April 2016 *Consensus Forecast*, which was the last time long-term forecasts were published.

332. In IRs the Commission asked ATCO Pipelines to update its debt rate forecast using the most current rates and assumptions available. In November 2016 during the first round of IRs, ATCO Pipelines responded that its debt rate forecast would be 3.92 per cent for 2017 and 4.37 per cent for 2018, using the most current assumptions at that time.[274] In April 2017, during the second round of IRs when asked a similar question, ATCO Pipelines submitted that its debt rate forecast would be 4.16 per cent and 4.46 per cent for 2017 and 2018, respectively, using the most current assumptions at that time.[275]

333. ATCO Pipelines also submitted in IR responses that on November 17, 2016, it received $110,000,000 of debentures with a coupon rate of 3.763 per cent.[276]

334. The CCA argued that in ATCO Pipelines' most recent debt issue on November 17, 2016, when ATCO Pipelines issued $110,000,000 of debentures the 10-year Canada bond rate from the November *Consensus Forecast* was 1.3 per cent. The CCA stated that when looking at the summary of the 10-year *Consensus Forecast* the average forecast rate for 2017 is 1.45 per cent and for 2017 is 1.85 per cent. The CCA argued that to determine the debenture rates for 2017 and 2018, the increase between the 1.3 per cent and the 10-year *Consensus Forecast* average for 2017 (1.45 per cent) and 2018 (1.85 per cent) should be used, i.e., an increase of 15 basis point for 2017 and an increase of 45 basis points for 2018. Therefore, the CCA submitted that the forecast debt rate for 2017 should be 3.913 per cent[277] and for 2018, 4.213 per cent.[278] [279]

335. ATCO Pipelines replied that the forecast debt rates recommended by the CCA were a decrease of 12 basis points in 2017 and 42 basis points in 2018 form the forecast rates ATCO Pipelines applied for. ATCO Pipelines submitted that this did not represent a significant amount particularly in the context of a cost item that is subject to a deferral account. However, ATCO

[274] Exhibit 22011-X0047, AP-AUC-2016NOV18-004, PDF page 67.
[275] Exhibit 22011-X0166, AP-AUC-2017APR11-021, PDF pages 63-64.
[276] Exhibit 22011-X0073, AP-CCA-2016NOV18-008, PDF page 175.
[277] 3.763% + 0.15% = 3.913%.
[278] 3.763% + 0.45% = 4.213%.
[279] Exhibit 22011-X0177, CCA argument, PDF pages 17-18.

Pipelines submitted that the CCA had recommended new rates based on an alternative, untested approach without providing evidence of errors in the existing methodology.[280]

336. ATCO Pipelines submitted that the methodology it had used in the application is consistent with the methodology that was approved in Decision 3577-D01-2016 and that it did not believe it is a beneficial use of resources to update the forecast methodology in every proceeding, especially given that the debt rate is subject to a deferral account. ATCO Pipelines stated that a reasonable methodology should be chosen and only challenged when material concerns arise.[281]

Commission findings

337. The Commission finds that the recommendation proposed by the CCA represents a methodology that has not been tested during this proceeding. The Commission agrees that ATCO Pipelines has prepared its debt rate forecasts using a method consistent with what was approved in Decision 3577-D01-2016. The Commission tested and approved this methodology during ATCO Pipelines' 2015-2016 GRA. Consistent with its findings elsewhere in this decision regarding use of the most recent information, the Commission finds that the most current *Consensus Forecast* data on the record of this proceeding should be used when determining what debt rate to use. Therefore the Commission approves a forecast debt rate of 4.16 per cent for 2017 and 4.46 per cent for 2018.

338. The Commission is cognizant that the debt rate is subject to deferral treatment, but is interested in exploring different methodologies to forecast debt cost rates in ATCO Pipelines' next GRA. The Commission directs ATCO Pipelines to explore and discuss different possible methods to forecast its debt rates in its next GRA, including methodologies that use a forward curve to set the debt cost rate, instead of using *Consensus Forecasts*. The Commission also anticipates that other parties to that proceeding, such as the CCA, will also have an opportunity to file evidence on this issue.

7.2.1 Debt rate deferral account

339. ATCO Pipelines requested continued use of its debt deferral account,[282] the Commission's findings on the debt deferral account are discussed in Section 8 below.

8 Deferral and reserve costs and placeholders

340. In Section 1.2 of the application, ATCO Pipelines listed and described all of the reserve and deferral accounts requested. ATCO Pipelines requested the continuation of and settlement of reserve accounts and deferral accounts, shown in the table below:

280 Exhibit 22011-X190, ATCO Pipelines reply argument, PDF page 61.
281 Exhibit 22011-X190, ATCO Pipelines reply argument, PDF page 61.
282 Exhibit 22011-X0005, application, Section 1.2, pages 1-2 of 4.

Table 34. Proposed and existing deferral accounts

Deferral account	Description	2016 closing balance ($)	Settlement amount ($)
NGTL integration costs deferral account*	To capture the difference between actual and approved costs and savings related to integration with NGTL. Decision 3577-D01-2016 approved the continued use of this deferral account. ATCO Pipelines is seeking settlement and discontinuance of this deferral account as the fourth and final tranche related to the NGTL Asset Swap closed on September 1, 2016. The NGTL integration deferral account is discussed in Section 4.3.1.	7,072,000	7,072,000
NGTL directed growth capital deferral account	To capture revenue requirement impacts of variance between approved forecast and actual major growth capital projects directed by NGTL	(28,000)	(28,000)
Salt cavern working gas deferral account	To collect the difference between the average cost of the Salt cavern working gas inventory and the market price received when gas is sold for withdrawal purposes plus any related transaction costs.	1,327,000	0
Reserve for injuries and damages	To fund injuries and damages expenses.	(74,000)	0
Debenture rate deferral account	To capture the difference between actual and approved financing costs, resulting from actual interest rates that were different from those approved.	(425,000)	(425,000)
Reserve for regulatory expenses	To capture the difference between actual and forecast AUC operating fees and to recover Commission approved hearing costs.	(1,736,000)	0
VPP deferral account	To collect the difference between actual and approved VPP charged to operations plus the net revenue requirement impact on the variance between actual and approved VPP charges to capital accounts. ATCO Pipelines is not proposing any changes to the approved VPP deferral account.	(1,781,000)	(1,781,000)
2013-2016 pension funding deferral account	To collect the difference between actual and forecast pension payments made for the defined benefit plan including special payments, and the pension funding amounts in ATCO Pipelines' 2013-2016 approved revenue requirement. ATCO Pipelines proposed to settle this account upon receipt of a Commission Decision on the ATCO Utilities' pension application encompassing the years 2014 to 2016 (Proceeding 21831). The pension amounts reflect the 50 per cent CPI COLA adjustment. Disallowed pension amounts are set as placeholders (see Section 8.2 below for the discussion on placeholders).	(1,076,000)	0
UPR deferral	To capture the difference between actual and approved UPR additions and asset transfer to ATCO Gas and the resulting impact on ATCO Pipelines' 2015-2016 revenue requirement. The UPR deferral account is discussed in Section 4.2.1.2.	(14,256,000)	(14,256,000)
Total recovery		**(10,977,000)**	**(9,418,000)**

Source: Assembled from Exhibit 22011-X0005, application, Section 1.2, pages 1-2 of 7 and Section 5.1, pages 1-10 of 14.
* Deferral account proposed to be discontinued.

341. ATCO Pipelines proposes to settle the negative $9,418,000 balance as a one-time adjustment to ATCO Pipelines' monthly revenue requirement immediately after the Commission approves ATCO Pipelines' compliance filing.[283]

[283] Exhibit 22011-X0005, application, Section 5.1, pages 1-2 of 10.

342. ATCO Pipelines is requesting settlement and discontinuance of one deferral account: the NGTL integration costs deferral account. This was discussed in Section 4.3.1 above.[284]

343. No interveners addressed the deferral accounts settlement in evidence, argument or reply argument.

Commission findings

344. The Commission evaluates each request for new and continuation of existing deferral accounts based on the following established criteria from Decision 2003-100: materiality, uncertainty in cost forecasts, factors beyond the utility's control and risk to the utility, while ensuring costs and benefits are symmetrically applied to the utility and customers.[285]

345. The Commission accepts ATCO Pipelines' reasons for continuing the deferral accounts included in the application. The Commission approves the amounts shown in Table 34 above, including the forecast amounts, subject to any true-ups or adjustments arising from directions elsewhere in this decision and subject to the reserve for injuries and damages discussed in the subsection below.

346. The Commission finds that ATCO Pipelines' proposal to settle deferral account balances as a one-time adjustment to be reasonable and consistent with past treatment for the deferral accounts approved by the Commission and its predecessors.

8.1 Reserve for injuries and damages

347. ATCO Pipelines forecast an expense level of $296,000 in 2017 and $295,000 in 2018 related to the reserve for injuries and damages (RID) account and forecast claims or payments of $333,000 in each test year. This results in a net balance in the RID of negative $38,000 in 2017 and $0 in 2018. The forecast claims amount is based on $23,000 in auto aggregate expenses and $309,000 in unspecified incidents based on a five-year historical average of payments from the reserve account. ATCO Pipelines stated that the five-year average forecast methodology is still appropriate to address uncertainty regarding accuracy, which is supported by the small ending balances in the reserve account from previous periods.

348. ATCO Pipelines stated that any incident which is self-insured is chargeable against the reserve, in compliance with Decision 3577-D01-2016.[286]

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284 Exhibit 22011-X0005, application, Section 5.1, Table 5.1-1.

285 Decision 2000-9 at page 148, stated the following with respect to symmetry: "The Board agrees that the use of deferral accounts should not be for the sole benefit of either the Company or the customers. Rather they should provide a degree of protection to both the Company and the customer from circumstance beyond their control. The Board expects that the individual mechanisms involved in the use of each deferral account should be applied in a consistent and fair manner in both test years and non-test years. Symmetry must exist between costs and benefits for both the Company and its customers."

286 Exhibit 22011-X0005, application, Section 4.2.7, pages 1-2 of 2.

349. ATCO Pipelines provided the following continuity schedule for the RID, from 2015 forward:

Table 35. Reserve for injuries and damages

	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)			
Opening balance	7	(66)	(74)	(38)
Forecast expense	(213)	(214)	(296)	(295)
Payments				
Auto aggregate	20	23		
Cloverbar spill	121			
Fort McMurray fire		185		
Unspecified incidents[1]			333	333
Carrying costs	(1)	(2)	(1)	-
Closing balance	(66)	(74)	(38)	-

Note 1: Historic five-year average from 2011-2015.
Source: Exhibit 22011-X0005, application, Section 4.2.7, Table 4.2.7-1, page 1 of 2.

350. In response to an IR, ATCO Pipelines updated the above table for the full year 2016 estimate and recalculated the reserve account payments with a five-year average of 2012-2016:

Table 36. Reserve for injuries and damages, updated in AP-AUC-2016NOV18-043(b)

	2015 actual	2016 estimate	2017 forecast	2018 forecast
	($000)			
Opening balance	7	(66)	(39)	(20)
Forecast expense	(213)	(214)	(255)	(255)
Payments				
Auto aggregate	20	23		
Cloverbar spill	121			
Fort McMurray fire		194		
Bob Ash Ltd.		25		
Unspecified incidents[1]			275	275
Carrying costs	(1)	(1)	(1)	-
Closing balance	(66)	(39)	(20)	-

Source: Exhibit 22011-X0047, AP-AUC-2016NOV18-043(b), PDF page 381.

351. ATCO Pipelines stated that the amounts in Table 36 above do not provide an appropriate forecast for average expenses and payments because the use of a five-year average based on

actual full year data is more representative and the 2016 estimated actual does not cover the full year.[287]

352. In response to an IR, ATCO Pipelines stated that there were no legal or accounting fees incurred in relation to the Fort McMurray fire claim and provided the following breakdown of the Fort McMurray fire claim estimate:

Table 37. Fort McMurray fire claim cost breakdown

	2016 estimate	
	Hours	Cost ($)
Internal labour costs	3,418	146,409
Materials		32,234
Travel, accommodation, meals and other		5,977
Reimbursement(1)		0
Total Fort McMurray fire(2)		**184,620**

Notes: (1) Claim is still pending, no reimbursement received to date.
(2) Total amount was provided in response to an IR which requested a breakdown of the $185,000 included in the original Table 4.2.7-1 in the application.
Source: Exhibit 22011-X0174, AP-CCA-2017APR11-029(c), PDF page 12.

Commission findings

353. The Commission has reviewed ATCO Pipelines' proposed expenses and settlements for the RID. The Commission accepts ATCO Pipelines' explanation for the use of a five-year average to estimate unspecified incidents in the RID, and consistent with past findings that a five-year average is optimal for estimates[288] when specific costs are not available. The Commission finds it reasonable for ATCO Pipelines to use a five-year average to estimate unspecified incidents in the RID.

354. As stated in Section 6.4 above, the Commission has a preference for the best available information when rendering a decision. In response to an IR, ATCO Pipelines provided an update to the continuity schedule for the RID, however, it argued that the schedule should not be used because it is not representative of 2016 actual full year data. The Commission therefore directs ATCO Pipelines to update the RID forecasts, for the purposes of determining revenue requirement, to use the actual full year data for 2016, and to provide an updated continuity schedule (Table 4.2.7 in the application), in the compliance filing.

8.2 Placeholders

355. ATCO Pipelines has included a number of placeholders in its application to account for proceedings currently before the Commission. In particular, ATCO Pipelines included a placeholder of 37 per cent equity and a placeholder for a ROE of 8.3 per cent for 2017 and 2018, pending the Commission's determination in Proceeding 20622.[289] ATCO Pipelines updated its

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[287] Exhibit 2011-X0047, AP-AUC-2016NOV18-043(a-b), PDF pages 380-381.
[288] For example, in Decision 3539-D01-2015, the Commission directed EPCOR Distribution & Transmission Inc. to use a five-year average to estimate life cycle project costs when the project scope is not defined. Also, in Decision 2013-430, the Commission directed ATCO Pipelines to use a five-year average for calculating vacancy rates as it is more reflective of past experience.
[289] Proceeding 20622, 2016 GCOC.

placeholders for ROE and equity in response to an IR,[290] following the Commission's decision[291] in Proceeding 20622. These placeholders are discussed in Section 7.1 of this decision.

356. ATCO Pipelines submitted that it was awaiting the Commission's decision on the ATCO Utilities' pension application (pension application),[292] and as such requested placeholder treatment for increasing its pension COLA from 50 per cent to 100 per cent. In this application, ATCO Pipelines applied for a pension COLA adjustment placeholder of zero but noted that if approved to 100 per cent in the pension application, the revenue requirement impact would be $280,000 each year for 2017 and 2018.[293] As noted and discussed in Section 6.3.3 above, on July 12, 2017, the Commission issued a decision on the ATCO Utilities pension application, Decision 21831-D01-2017, which maintained COLA at 50 per cent of CPI for the ATCO Utilities.

357. ATCO Pipelines also requested that IT rates be treated as placeholders pending a Commission decision on the ATCO Utilities IT Common Matters Proceeding (Proceeding 20514).[294]

358. A summary of ATCO Pipelines' placeholder requests are summarized in the table below:

Table 38. Summary of placeholder requests in included in the application and updated in response to Commission IRs

	2017 forecast	2018 forecast
	($000)	
Return		
Equity thickness (%)		37%
ROE (%)		8.5%
Pension costs		
50% to 100% pension COLA	0	0
NGTL directed growth capital	5,000	85,000
Reserves		
Regulatory expenses	3,109	3,111
Injuries and damages	296	295
VPP	2,818	2,910
Debt rate	4.02%	4.62%
Other placeholder requests (disallowed operating costs)		
Licensing fees	655	671
Pension COLA adjustment	280	280
MTIP/LTIP	(65)	(66)
Donations and sponsorships	472	482
Corporate costs	65	67
Hearing costs	611	703

Source: Exhibits 22011-X0005, application, Table 1.2-1, PDF page 12; and 22201-X0047, AP-AUC-2016NOV18-001(d), PDF page 3.

290 Exhibit 22011-X0047, AP-AUC-2016NOV18-003(a).
291 Decision 20622-D01-2016.
292 Proceeding 21831, ATCO Utilities pension application.
293 Exhibit 22011-X0005, application, Section 4.2.9, pages 1-2 of 2.
294 Exhibit 22011-X0005, application, Section 1.2.

359. ATCO Pipelines clarified that the pension COLA adjustment cost placeholders are a result of updated pension funding requirements beginning in 2016 which lowered the required pension funding and associated impact on the COLA.

360. ATCO Pipelines explained that the variation in hearing costs are a result of the timing of regulatory proceedings.[295]

361. Licencing fees are not included in this application as they are subject to a separate ATCO Utilities licencing fees proceeding (Proceeding 21029). Decision 21029-D01-2016[296] addressed ATCO Electric Transmission's 2015-2017 and ATCO Pipelines 2017-2018 licence fees.

362. No interveners addressed the forecast placeholders in evidence, argument or reply argument.

Commission findings

363. The placeholders requested in ATCO Pipelines' application include:

- Capital project costs which will be captured in the capital growth deferral account.
- Injuries and damages which will be captured in reserve accounts.
- Regulatory expenses which will be captured in the reserve for regulatory expenses.
- VPP expenses which will be captured in the VPP deferral account.
- Changes to COLA pension costs.
- Disallowed operating costs.

364. Findings for the pension costs placeholders are addressed in Section 6.3.3, findings for NGTL directed growth capital projects, VPP expenses and regulatory expenses are addressed in Section 8 and findings for reserves for injuries and damages are addressed in Section 8.1.

365. The Commission notes that Decision 21831-D01-2017 on ATCO Pipelines' 2014-2018 pension application was issued on July 12, 2017. The Commission directs ATCO Pipelines to update its placeholder schedule for pension COLA costs in its compliance filing.

366. The Commission accepts ATCO Pipelines' assertion that the disallowed operating costs are not included in revenue requirement.[297]

367. Apart from the pension COLA costs addressed in paragraph 257 above, the forecast placeholders are approved, subject to any required adjustments related to directions elsewhere in this decision.

9 Depreciation

368. In its application, ATCO Pipelines filed depreciation evidence, including a depreciation study prepared by Earl Robinson of AUS Consultants relating to utility plant in service as of December 31, 2015. Mr. Robinson submitted his findings and recommendations, together with

[295] Exhibit 22011-X0047, AP-AUC-2016NOV18-001(d), PDF page 3.
[296] Decision 21029-D01-2016: ATCO Electric Transmission and ATCO Pipelines, Application for ATCO Electric Transmission 2015-2017 and ATCO Pipelines 2015-2016 Licence Fees, Proceeding 21029, June 30, 2016.
[297] Exhibit 22011-X0047, AP-AUC-2016NOV18-001(d), PDF page 2.

supporting schedules and exhibits which showed the results of service life and net salvage studies.

369. The depreciation study included Mr. Robinson's analysis of ATCO Pipelines' historical plant data through December 31, 2015. To assist in the interpretation of past service life experience and future expectations, Mr. Robinson also considered discussions with management staff which were intended to identify prior and prospective factors affecting plant in service; all of which informed his recommendations with respect to the depreciation parameters of average service life, Iowa curve and dispersion (life-curve) and net salvage per cents. Mr. Robinson generally relied on previously approved depreciation methodologies for determining his proposed depreciation parameters wherein a straight-line depreciation method was used in combination with the equal life group (ELG) procedure and whole life (WL) technique. Consistent with previous practices, an annual true-up amount with respect to the amortization of reserve differences was also determined on an account by account basis.

370. The application reflected two main departures from ATCO Pipelines' historical depreciation practices. First, ATCO Pipelines proposed determining the average remaining life or lives of ATCO Pipelines' depreciation study accounts (which are used in the amortization of reserve differences calculation) on the basis of the ELG procedure. Historically, the average remaining life calculation had been based on the broad group (BG) procedure. Second, rather than use a traditional net salvage study as the basis for his net salvage per cent recommendations for ATCO Pipelines' underground storage asset accounts, Mr. Robinson relied on the results of a decommissioning study prepared by Stantec Consulting Ltd. (Stantec). These two changes are discussed in further detail in sections 9.1 and 9.5.1, respectively, which follow.

371. ATCO Pipelines provided year-over-year comparisons of the proposed increases in net depreciation expense, as reproduced in the following table:

Table 39. Comparison of year-over-year increases in net depreciation expense

	2015 actual using approved parameters	2016 estimate using approved parameters	2017 forecast using proposed parameters	2018 forecast using proposed parameters
	($000)			
Net depreciation expense	55,680	66,825	89,564	97,316
Year-over-year Increase/(decrease) in net depreciation expense		**11,145**	**22,739**	**7,752**

Source: Exhibit 22011-X0005, application, Table 4.4-1, Line 10, PDF page 156.

372. ATCO Pipelines attributed the total of approximately $30 million in 2017 and 2018 year-over-year increases in depreciation expense as due to the following factors:

Table 40. 2017-2018 increase (decrease) in net depreciation expense

	2017 increase (decrease) in net depreciation expense	2018 increase (decrease) in net depreciation expense
	($000)	
Increases in capital additions	8,268	7,752
Changes in average service lives and Iowa curves	(515)	-
Changes in net salvage per cents	10,823	-
Changes in amortization of reserve differences methodology	4,163	-
Increase (decrease) in net depreciation expense year-over-year	**22,739**	**7,752**

Source: Exhibit 22011-X0005, application, Table 4.4-2, PDF page 157.

373. Mr. Robinson examined the depreciation parameters last approved in Decision 2013-430, and recommended adjustments to life-curve parameters for 17 accounts and adjustments to net salvage per cents for 17 accounts. Changes in amortization periods for ATCO Pipelines' non-customized software accounts were also proposed, however, they did not form a component of the depreciation study prepared by Mr. Robinson.

374. The impact of ATCO Pipelines' proposals, in combination with updated depreciation parameters and amortization of reserve differences amounts resulting from the depreciation study, are presented in the following table:

Table 41. Impact of ATCO Pipelines depreciation on net depreciation expense between previously approved and proposed depreciation parameters

	2017 forecast	2018 forecast
	($000)	
Net depreciation expense using approved depreciation parameters	75,093	82,213
Change in average service lives and Iowa curves	(515)	(1,108)
Change in net salvage per cents	10,823	12,048
Change in amortization of reserve differences methodology	4,163	4,163
Total impact of proposed changes	**14,471**	**15,103**
Net depreciation expense using proposed depreciation parameters	**89,564**	**97,316**

Source: Exhibit 22011-X0005, application, Table 4.4-3, PDF page 157.

375. The UCA submitted depreciation evidence prepared on its behalf by Patrick Bowman of InterGroup Consultants Ltd. and Patricia Lee of BCRI Inc. (the UCA depreciation evidence). The scope of work of Mr. Bowman and Ms. Lee was to review the ATCO Pipelines depreciation study, specifically with respect to "both life analysis and net salvage, taking into account normal regulatory principles for utility ratemaking, and recognizing the extent of recent and planned significant capital additions to Rate Base...."[298] The UCA adopted the evidence of Mr. Bowman and Ms. Lee in argument.

376. The UCA depreciation evidence took issue with the two changes proposed by ATCO Pipelines and Mr. Robinson as described above, and also with the proposals for one account

[298] Exhibit 22011-X0131, UCA depreciation evidence, lines 8-10, PDF page 3.

related to life-curve recommendations and five accounts related to the net salvage per cents. Mr. Bowman and Ms. Lee's concerns with respect to ATCO Pipelines' proposals for changes to certain net salvage per cents stemmed largely from their objection to the use of the Stantec decommissioning study. Mr. Bowman and Ms. Lee expressly agreed with ATCO Pipelines' recommendations for the depreciation parameters of average service life for Account 452 and negative net salvage per cent for Account 454.[299] Mr. Bowman and Ms. Lee estimated the impact of the recommendations in the UCA depreciation evidence as a reduction to depreciation expense of approximately $20 million in each of 2017 and 2018.[300]

377. ATCO Pipelines was critical of the UCA's recommendations as being aimed only at decreasing current rates without consideration of proper rate-making principles.[301]

378. Both the CCA and WEG submitted depreciation-related IRs, but neither party submitted depreciation evidence.

379. The Commission has summarized the depreciation parameters currently approved and proposed by parties in the following two tables:

Table 42. Summary of previously approved and proposed depreciation parameters for ATCO Pipelines depreciation study assets

		Proceeding 2322 2013-2014 Decision 2013-430 approved		Proceeding 22011 2017-2018 proposed by ATCO Pipelines		Proceeding 22011 2017-2018 proposed by the UCA	
Account		Life-curve	Net salvage	Life-curve	Net salvage	Life-curve	Net salvage
	Underground storage plant						
451.00	Land rights	75-R5	-	75-R5	-		
452.00	Structures & improvements	30-R2.5	-5	37-S4	-691	37-S4	-10
453.00	Wells	50-R4	-20	50-R4	-154	monitor	-20
453.01	Well inspections	10-SQ	-	10-SQ	-		
454.00	Well equipment	24-R3	-20	20-R3	-1	monitor	-1
455.00	Field lines	25-R4	-5	25-R4	-13	monitor	-5
456.00	Compressor equipment	30-R3	-	30-R3	-5	monitor	
457.00	Measuring & regulating equipment	35-R4	-10	36-R4	-3		
457.01	Measuring & regulating electronic	13-R4	-	15-R3	-	monitor	
459.00	Other underground storage equipment	36-S4	-	38-S4	-		
	Transmission plant						
461.00	Land rights	82-R5	-20	80-R5	-10		
462.00	Compressor structures & improvements	35-L1.5	-5	32-L1.5	-5		
463.00	Measuring & regulating structures	50-R2	-15	50-R2	-25		
464.00	Other structures & improvements	33-R4	-20	50-R1.5	-15		

299 Exhibit 22011-X0165, UCA-AUC-2017APR11-001(a), PDF page 4.

300 Exhibit 22011-X0165, UCA-AUC-2017APR11-001(d), PDF page 7. Referring to bullet points, the impact has been estimated to be an annual reduction to depreciation expense of ($4.2 + $2.0 + $0.0 + $7.0 + $1.7 (minimum estimate) + $5.0 (minimum estimate) = $19.9 million).

301 Exhibit 22011-X0178, ATCO Pipelines argument, paragraph 25.

		Proceeding 2322 2013-2014 Decision 2013-430 approved		Proceeding 22011 2017-2018 proposed by ATCO Pipelines		Proceeding 22011 2017-2018 proposed by the UCA	
Account		Life-curve	Net salvage	Life-curve	Net salvage	Life-curve	Net salvage
465.00	Mains	62-R2.5	-50	62-R2.5	-80	65-67 - R2.5	-50
465.01	In line inspection	8-R4	-	8-R4	-		
466.00	Compressor equipment	32-R0.5	-5	29-R1	-20		
466.01	Compressor equipment electronic	20-R3	-	20-R3	-15		
466.03	Compressor overhaul	8.3-SQ	-	9.5-SQ	-		
466.04	Compressor overhaul turbo	2.9-SQ	-	2.9-SQ	-		
467.00	Measuring & regulating equipment	35-R1	-25	35-R0.5	-35	monitor	
467.01	Measuring & regulating electronic	20-R3	-20	25-R1.5	-20		
467.02	Measuring computer equipment	15-R4	-	15-R4	-		
467.03	Meters	18-R5	-	22-R4	-		
468.00	Communications structures & equipment	30-R2	-	35-R2	-		
469.00	Other transmission equipment	15-R1.5	-10	15-R1.5	-10		
	General plant						
482.00	Structures	37-R2.5	-5	35-R2.5	-3		
484.00	Transportation equipment	7-L2	15	7-L2	18		
484.01	Transportation equipment (NGV)	7-L2	-	7-L2	-		
484.02	Transportation equipment (ancillary)	7-R5	-	8-R3	-		
484.03	Transportation equipment (trailers)	16-R3	5	17-R4	8		
485.00	Heavy work equipment	18-R2	15	18-R2	12		
488.00	Communication equipment	10-L0	-	10-L0	-		
489.11	Field laptops	4-SQ	-	4-SQ	-		
496.05	Equipment – SCADA	8-R5	-	8-R5	-		
499.05	Software - SCADA	8-R5	-	8-R5	-		

Source: Exhibit 22011-X0167, AP-AUC-2017APR11, Attachment 1, Tab Equal Life Depreciation (columns D-E and KP-KQ) and Exhibit 22011-X0165, UCA-AUC-2017APR11-001, PDF pages 1-7. Note: parameters of 10-SQ for Account 453.01 were approved in Decision 3577-D01-2016, paragraphs 573 and 579.

Table 43. Summary of previously approved and proposed depreciation parameters for ATCO Pipelines amortized (straight-line fixed rate) plant assets

		Proceeding 2322 2013-2014 Decision 2013-430 approved		Proceeding 22011 2017-2018 proposed by ATCO Pipelines		Proceeding 22011 2017-2018 proposed by the UCA	
Account		Life-curve	Net salvage	Life-curve	Net salvage	Life-curve	Net salvage
	Amortized assets – straight-line fixed rate						
483.00	Office furniture & equipment	20 SQ	10	20 SQ	10		
486.00	Tools & work equipment	25 SQ	10	25 SQ	10		
489.00	Stores, shop & garage equipment	30 SQ	10	30 SQ	10		
491.00	Laboratory equipment	25 SQ	10	25 SQ	10		
499.00	Software 3-year	5 or 10 SQ		3 SQ	-		
499.00	Software 7-year	5 or 10 SQ		7 SQ	-		
499.00	Software 10-year	5 or 10 SQ		10 SQ	-		

Source: Exhibit 22011-X0167, AP-AUC-2017APR11, Attachment 1, Tab Fixed Rate Depreciation (columns D-E and KN-KO).

9.1 Change in the average remaining life calculation used in the amortization of reserve differences calculation

380. ATCO Pipelines proposed determining the average remaining life or lives of ATCO Pipelines' depreciation study accounts, which are used in the amortization of reserve differences calculation, on the basis of the ELG procedure. Historically, the average remaining life calculation had been based on the BG procedure. ATCO Pipelines' use of the BG procedure to calculate the amortization of reserve differences amount[302] was approved in Decision 2003-100 and was directed to be continued by the Commission in Decision 2013-430.

381. Given ATCO Pipelines' use of the ELG procedure for all other aspects of its depreciation calculations, ATCO Pipelines viewed that using the BG procedure for the amortization of reserve differences calculation is "inappropriately inconsistent." The difference between the two procedures, from a financial perspective, has grown from a historically less material amount of $0.1 million to its current significant level of approximately $4.0 million. ATCO Pipelines stated that specific to the amortization of reserve differences true-up amount, the proposed change to ELG would result in an increase to the true-up amount (and thus depreciation expense) of approximately $4.0 million out of a total $4.2 million increase in each of 2017 and 2018.[303]

382. In responses to IRs, ATCO Pipelines clarified that the growing difference between the ELG and BG calculations of the amortization of reserve differences true-up amount is caused by both the continual increase in plant investment, the differences between the two procedures and,

302 The amortization of reserve differences true-up amount is determined for each asset account as a calculation of the variance between the company book depreciation reserve and the theoretically calculated depreciation reserve, where the reserve differences variance is amortized over the average remaining life. At issue in this proceeding is the procedure used to calculate the average remaining life: being either the ELG (proposed) or the BG (approved) procedure. In general, an average remaining life calculated using ELG is shorter than using BG, which is the cause of the increase in the reserve differences true-up amount. While reference is made in this section to the impact of the proposed change on the amortization of reserve differences calculation, it is meant to apply equally to the amortization of reserve differences true-up amount.

303 Exhibit 22011-X0005, application, PDF pages 6 and 158-159.

to a lesser extent, proposed changes in depreciation parameters.[304] While ATCO Pipelines and Mr. Robinson agreed that the amortization of reserve differences true-up calculation being based on the BG is a common and long standing approach in Alberta, they indicated it was incumbent upon ATCO Pipelines to request a different approach when a large variance or intergenerational inequity is detected.[305]

383. Mr. Bowman and Ms. Lee questioned ATCO Pipelines' rationale for the proposed change. ATCO Pipelines responded that it was seeking the change to the ELG procedure due to the growing variances between it and the approved BG procedure.[306] When questioned whether continued use of the BG procedure for the amortization of reserve differences true-up calculation would impede ATCO Pipelines' ability to recover 100.0 per cent of its investment in plant assets, ATCO Pipelines indicated it would not, but given continued investment in plant assets, the growing variance between the two procedures would result in further intergenerational inequity[307] that will be deferred to future rate payers.[308]

384. The UCA depreciation evidence stated there was no compelling reason to increase depreciation expense for today's customer to resolve a purported ELG - BG mismatch which does not prejudice ATCO Pipelines overall capital recovery and has operated successfully for almost 15 years. Mr. Bowman and Ms. Lee suggested that if the mismatch must be resolved, then consideration should be given for moving all aspects of ATCO Pipelines depreciation calculations to the BG procedure and abandoning the ELG procedure.[309] The UCA countered ATCO Pipelines' assertion of intergenerational inequity by arguing that "if the status quo remains in place, no inequity will result. It is only if a change is necessary for other, independent, *bona fide* reasons, that generational inequity becomes a concern."[310]

385. ATCO Pipelines argued that the use of the ELG procedure would better align the amortization of reserve differences variance calculation with the ELG calculation for its depreciation life rates thereby providing for a better match of customer consumption.[311]

Commission findings

386. The Commission considers that approving the requested change to ELG for the purposes of the amortization of reserve differences calculation would be inconsistent with the long standing and wide spread use of the BG procedure in Alberta.

387. The Commission agrees with the UCA that the risk of intergenerational inequity becomes greater if the proposed ELG approach is implemented. However, the Commission does not agree that based on the evidence in this proceeding, a suitable alternative exists, as the UCA suggests, for ATCO Pipelines to adopt on a wholesale basis, the BG procedure for all aspects of ATCO Pipelines depreciation calculations as a way to resolve the ELG-BG mismatch.

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304 Exhibit 22011-X0047, AP-AUC-2016NOV18-002, PDF page 30.
305 Exhibit 22011-X0166, AP-AUC-2017APR11-016, PDF page 55.
306 Exhibit 22011-X0061, AP-UCA-2016NOV18-003(c), PDF page 33. Note that the question was asked as part (b), but responded to as part (c).
307 Exhibit 22011-X0061, AP-UCA-2016NOV18-003(d), PDF page 34. Note that the question was asked as part c), but responded to as part (d).
308 Exhibit 22011-X0178, ATCO Pipelines argument, paragraph 41.
309 Exhibit 22011-X0131, UCA depreciation evidence, PDF page 5.
310 Exhibit 22011-X0188, UCA reply argument, paragraph 21.
311 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 96.

388. The Commission directs ATCO Pipelines to revert to the use of the BG procedure for the purposes of determining its amortization of reserve differences calculation and amortization of reserve differences true-up amounts in its compliance filing to this decision.

9.2 Other issues raised by the UCA and CCA

389. In this section, the Commission addresses other issues (not related to depreciation parameter recommendations) advanced in the UCA depreciation evidence, as adopted by the UCA in argument, and the CCA in argument, each of which are discussed in the following subsections.

9.2.1 Account 496.05 – general plant – equipment – SCADA

390. The UCA requested details concerning the debit balance for accumulated depreciation Account 496.05 – general plant – equipment – SCADA. ATCO Pipelines was unable to provide the UCA with details of the accumulated depreciation on a vintage basis, but did clarify that the debit balance stemmed from the retirement of SCADA equipment in the amount of $3.7 million in 2015.

391. ATCO Pipelines' information was provided in a continuity schedule which the Commission has replicated in the following table:

Table 44. Continuity schedule for Account 496.05 – general plant – equipment - SCADA

	Opening balance	Depreciation expense	Reserve amortization	Retirements	Transfers	Ending balance
	($000)					
2012	81	-581	0	0	0	-500
2013	-500	-799	-66	1	-19	-1,383
2014	-1,383	-880	-66	269	0	-2,061
2015	-2,061	-869	-66	3,669	0	673
Change due to approved technical updated (15/16 GRA)						-332
2015 adjusted ending balance						341

Source: Exhibit 22011-X0119, Response to AUC directive, AP-UCA-2016NOV18-006(b), PDF page 1.

392. In an IR response, Mr. Bowman and Ms. Lee stated that it was apparent there were "effectively no retirements"[312] in this account, but that a material and unexplained amortization adjustment of approximately $1.6 million was recorded at some point. Mr. Bowman and Ms. Lee based this assertion on examining certain schedules in Proceeding 3577 and Proceeding 22011 and concluding that the change in the accumulated depreciation account between the December 31, 2013 balance (in the amount of $1.279 million) and December 31, 2015 balance (in the amount of -$0.341 million) was evidence that an amortization adjustment of approximately $1.6 million had been incorrectly recorded by ATCO Pipelines.[313] The UCA adopted the recommendation that the Commission should investigate the material and unexplained accumulated amortization adjustment.

[312] Exhibit 22011-X0183, UCA argument, paragraph 78.
[313] Exhibit 22011-X0138, UCA-AUC-2017FEB28-011(c).

Commission findings

393. The Commission considers that the continuity schedule provided by ATCO Pipelines provides a clear illustration of the transactions in the accumulated depreciation account; specifically, the retirement transactions in the years 2014 ($0.269 million) and 2015 ($3.669 million) which led to the debit balance of approximately $0.341 million at the end of 2015. Further, with respect to the UCA's concerns, the Commission observes that it may be precisely the retirements in the amounts of $0.269 million in 2014 and $3.669 million in 2015 that have not been included in the analysis conducted by the UCA.

394. Much of the argument and reply argument of the UCA and ATCO Pipelines centred on aspects related to changes in the amortization of reserve differences amount. The Commission does not find this germane to the nature of the transactions being recorded that have led to the debit accumulated depreciation balance that concerns the UCA.

395. For purposes of clarity, the Commission directs ATCO Pipelines to provide a supplementary continuity schedule of the accumulated depreciation balances for Account 496.05 – general plant – equipment – SCADA in its compliance filing to this decision. The schedule should address the concerns of the UCA by providing any missing information that will reconcile their assumptions of a missing transaction with the information provided by ATCO Pipelines and noted in Table 44 above. If the UCA's concerns remain upon being provided with this additional information by ATCO Pipelines, it may pursue this issue in the compliance filing proceeding.

9.2.2 Contributions

396. In the UCA depreciation evidence, Mr. Bowman and Ms. Lee stated that there was a lack of clear information available with respect to the recording of third-party contributions and the resultant impact on depreciation parameter estimates. It was not clear that ATCO Pipelines had correctly reflected contributions from third parties when compiling observed life and net salvage data used in its depreciation study. Mr. Bowman and Ms. Lee stated that without this information, there may be a basis for concern about the "robustness" of the depreciation parameter proposals for some of ATCO Pipelines' major asset accounts.[314]

397. In rebuttal, ATCO Pipelines responded to the concern raised in the UCA depreciation evidence. In a series of diagrams and written explanations, ATCO Pipelines provided clarification of "the treatment of contributions for life assets, full contribution for third party relocations, and partial contribution for third party relocations."[315]

398. Mr. Bowman and Ms. Lee maintained the position that ATCO Pipelines should be required to submit more detailed information with respect to its contribution policy and the specific accounting and prioritization of funds received from third-party requested relocations under certain scenarios.[316] The UCA argued that the application of ATCO Pipelines' policies with respect to contributions appeared to vary from project to project which made for inconsistent depreciation principles.[317]

314 Exhibit 22011-X0131, UCA depreciation evidence, PDF pages 5 and 10-12.
315 Exhibit 22011-X0139, rebuttal evidence, PDF pages 7-10.
316 Exhibit 22011-X0165, UCA-AUC-2017APR11-001, PDF pages 5-6.
317 Exhibit 22011-X0183, UCA argument, paragraph 81.

399. ATCO Pipelines argued that third-party relocations vary extensively and the scenario of relocation is included in ATCO Pipelines' capitalization policy:

> 54. Relocations, where appropriate (i.e. in the case of no contributions or partial contributions), have rightfully been incorporated in prior AP depreciation studies and thus have been fully contemplated in the development of mains depreciation parameters. AP's past and currently approved rates considered relocations, including third party relocations. As such, third party relocations, contrary to UCA assertions, do not improperly skew observed lives. Rather they are rightfully considered and inform the mains depreciation parameters developed. Mr. Robinson correctly incorporated all mains retirements, including relocations and relocations with partial contributions, in the development of AP's mains depreciation parameters for 2015 Depreciation Study as filed in this proceeding.[318] [footnote omitted]

Commission findings

400. The Commission has examined the evidence with respect to the treatment of contributions for depreciation purposes and is not convinced that there is reason for concern. However, in reviewing the capitalization policy[319] referenced by ATCO Pipelines, the Commission can find no reference to any discussion of asset relocations. For this reason, the Commission considers it would be beneficial for ATCO Pipelines to establish a written policy with respect to its treatment of contributions from both an accounting and depreciation study perspective. The Commission directs ATCO Pipelines to submit this contribution policy at the time of its next general rate application. The contribution policy should encompass the three contribution scenarios described by ATCO Pipelines in its rebuttal evidence and any other scenarios that require separate or distinct accounting treatment.

9.2.3 Alternative approaches for addressing net salvage

401. In response to Commission IRs, Mr. Bowman and Ms. Lee suggested that to resolve certain shortcomings with respect to ATCO Pipelines' requests for increasing negative net salvage per cents, a review of ATCO Pipelines practices, including those related to contributions, and mitigation and moderation, should be considered.[320] Mr. Bowman and Ms. Lee recommended further regulatory oversight as it pertains to the management of net salvage spending. There was also a suggestion to examine alternative approaches for addressing net salvage when rate impacts from current practices could be considered material, which could include increased capitalization of removal costs or salvage estimates tied to present value methods.[321] The UCA recommended that the Commission direct ATCO Pipelines to provide this additional information in its next application.[322]

402. ATCO Pipelines argued that its net salvage approach is a long-standing accepted practice of the Commission and that should the UCA wish to sponsor evidence which considers alternate methods, it could do so in a future proceeding where the concepts could be fully tested.[323]

318 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF pages 16-17.
319 Exhibit 22011-X0044, AP-AUC-2016NOV18-056(h) attachment.
320 Exhibit 22011-X0138, UCA-AUC-2017FEB28-020(b), PDF page 43.
321 Exhibit 22011-X0165, UCA-AUC-2017APR11-001(c), PDF page 6.
322 Exhibit 22011-X0183, UCA argument, paragraph 80.
323 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraph 116.

Commission findings

403. The Commission does not find it has sufficient information to adopt the recommendations of the UCA in relation to alternative approaches to addressing net salvage. The Commission agrees with ATCO Pipelines, that should the UCA wish to sponsor evidence examining any of the alternative net salvage methods it has suggested should be considered, it is free to do so at the time of ATCO Pipelines' next application.

9.2.4 Additional information requested by the CCA

404. In argument, the CCA requested that the Commission direct ATCO Pipelines, in its next GRA, to provide historical cumulative amounts for (1) the total amount of funds collected through depreciation rates for the purposes of cost of removal and (2) the total amount of funds expended by ATCO Pipelines for the purpose of cost of removal incurred. The CCA considered this information would provide more visibility with respect to cost of removal and further, be useful in the future when evaluating ATCO Pipelines' proposals to increase depreciation expense related to future cost of removal.[324]

405. ATCO Pipelines responded that the CCA's concern was not valid given that the information being sought by the CCA was already contained within its detailed depreciation expense calculations.[325]

Commission findings

406. The Commission agrees with ATCO Pipelines that the information can be found within its detailed depreciation expense calculations[326] but observes that it is only on a forecast basis and only for the test years in question.

407. The Commission finds merit in the CCA's concern and related recommendation and therefore directs ATCO Pipelines to provide the requested cost of removal information (as being what has been collected and what has been expended, each on a total cumulative basis) at the time of its next GRA. The cost of removal information will be required for a single account, Account 465.00 – transmission plant – mains. After examining the data, the Commission will make a subsequent determination with respect to ATCO Pipelines' remaining plant accounts and whether similar cost of removal information for those accounts will be required.

9.3 Detailed depreciation expense calculations (approved and proposed)

408. In response to Commission IRs, ATCO Pipelines provided detailed depreciation expense calculations on the basis of both approved and proposed methodologies and depreciation parameters.[327]

409. The calculations submitted did not contain formulae similar to that submitted by ATCO Pipelines in previous proceedings. The calculations nonetheless provided parties with the means

324 Exhibit 22011-X0177, CCA argument, paragraphs 35-42.
325 Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraphs 236-237.
326 Exhibit 22011-X0167 to Exhibit 22011-X0170.
327 Exhibit 22011-X0167 to Exhibit 22011-X0170.

to test and confirm the derivation of ATCO Pipelines' forecast depreciation expense calculations on an account-by-account basis for the 2017 and 2018 test years.[328]

Commission findings

410. The Commission finds the referenced depreciation expense calculations a necessary tool for the purposes of testing ATCO Pipelines' provisions for depreciation expense. The Commission considers that this information should be provided as standard support for ATCO Pipelines depreciation expense without the need for this information to be solicited from ATCO Pipelines through the IR process.

411. The Commission directs ATCO Pipelines to provide as part of all future rate applications where either a depreciation study or technical update to a depreciation study has been submitted, detailed depreciation expense calculations on the basis of both approved methodologies and depreciation parameters (and corresponding rates) and proposed methodologies and depreciation parameters (and corresponding rates).

9.4 Service life and Iowa curve adjustments

412. Depreciation accounting is intended to systematically and rationally allocate the difference between the original cost and the net salvage value of depreciable property over an estimated average service life. The average service life resulting from an Iowa curve estimate is the principal determining factor of the depreciation rate which, when applied to the cost of the utility asset, determines depreciation expense.

413. When examining a depreciation study, life-curve recommendations are reviewed by the Commission and parties to consider whether the resultant depreciation rates and expense are supported.

414. The life-curve estimates relied on by ATCO Pipelines were based on the recommendations of its depreciation consultant, Mr. Robinson, as outlined in his depreciation study. In preparing the depreciation study, Mr. Robinson examined ATCO Pipelines historical investment data using various service life analysis techniques such as a retirement rate analysis. Further, site visits and discussions with company personnel were held to understand the scope of company operations and any other factors having a bearing on the service lives of its utility assets. Depreciation study results were "tempered"[329] by information gathered during plant inspection tours of a representative portion of company property.

9.4.1 Account 452.00 – underground storage plant – structures and improvements

415. Account 452.00 – underground storage plant – structures and improvements comprises approximately $2.6 million, or 0.2 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 37-S4 for this account which is a modification to the average service life and retirement dispersion from the approved 30-R2.5 for this account.

416. As support for his recommendation to increase average service life by seven years, Mr. Robinson stated that a site visit was completed at which time the structures were "perceived

[328] Exhibit 22011-X0044, AP-AUC-2016NOV18-069 and referenced attachments; Exhibit 22011-X0166, AP-AUC-2017APR11-003 and referenced attachments.
[329] Exhibit 22011-X0001, depreciation study, page 3-2, PDF page 36.

as being in generally good condition" and should last for a period of 37 years.[330] American Gas Association (AGA) average service life statistics provided in Mr. Robinson's depreciation study ranged from eight to 55 years with an average service life being 34 years. There were no other peer statistics provided for this account.[331]

417. The UCA expressly supported the proposed life-curve combination as recommended by Mr. Robinson.[332]

Commission findings

418. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 37-S4 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data. It is also within the range of average service life statistics provided by Mr. Robinson.[333]

419. The Commission accepts this evidence as the basis for approving the proposed 37-S4 life-curve combination for Account 452.00 – underground storage plant – structures and improvements as filed.

9.4.2 Account 454.00 – underground storage plant – well equipment

420. Account 454.00 – underground storage plant – well equipment comprises approximately $5.5 million, or 0.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 20-R3 for this account which is a modification to the average service life and retirement dispersion from the approved 24-R3 for this account.

421. Mr. Robinson made his recommendations based upon the results of his analysis of the available data and in consideration that the equipment is impacted by a corrosive brine solution which leads to life limitations.[334] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from eight to 56 years with an average service life being 38 years. There were no other peer statistics provided for this account.[335]

422. The UCA recommended there be close monitoring of life and dispersion characteristics for this account over the next few years due to its concerns related to a lack of actual retirement data.[336] [337]

Commission findings

423. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that approximately nine years of data points at roughly 54 per cent surviving appear to have been excluded from consideration. Therefore, the Commission is not satisfied that the proposed 20-R3 life-curve provides a satisfactory visual fit to ATCO Pipelines

330 Exhibit 22011-X0001, depreciation study, pages 4-3 to 4-5, PDF pages 55-57.
331 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
332 Exhibit 22011-X0165, UCA-AUC-2017APR11-001(a), PDF page 4.
333 Exhibit 22011-X0001, depreciation study, page 5-1, PDF page 116.
334 Exhibit 22011-X0001, depreciation study, pages 4-10 to 4-11, PDF pages 62-63.
335 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
336 Exhibit 22011-X0138, UCA-AUC-2017FEB28-012, PDF page 23.
337 Exhibit 22011-X0165, UCA-AUC-2017APR11-001, PDF page 4.

historical data[338] or that ATCO Pipelines' proposed life-curve parameters should be significantly lower than the AGA average for this account.

424. The Commission denies the proposed 20-R3 life-curve combination for Account 454.00 – underground storage – well equipment, and directs ATCO Pipelines to maintain the existing 24-R3 life-curve for this account in its compliance filing to this decision.

9.4.3 Account 457.00 – underground storage plant – measuring and regulating equipment

425. Account 457.00 – underground storage plant – measuring and regulating equipment comprises approximately $6.9 million, or 0.4 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 36-R4 for this account which is a modification to the average service life and retirement dispersion from the approved 35-R4 for this account.

426. Mr. Robinson made his recommendations based upon the results of his analysis of the available data and in consideration that this equipment may have a serve life similar to that of Account 46700 – transmission plant – measuring and regulating equipment.[339] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 10 to 55 years with an average service life being 30 years. There were no other peer statistics provided for this account.[340]

427. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

428. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 36-R4 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[341]

429. The Commission accepts this evidence as the basis for approving the proposed 36-R4 life-curve combination for Account 457.00 – underground storage plant – measuring and regulating equipment as filed.

9.4.4 Account 457.01 – underground storage plant – measuring and regulating equipment (electronic)

430. Account 457.01 – underground storage plant – measuring and regulating equipment (electronic) comprises approximately $3.6 million, or 0.2 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 15-R3 for this account which is a modification to the average service life and retirement dispersion from the approved 13-R4 for this account.

338 Exhibit 22011-X0001, depreciation study, page 5-5, PDF page 120.
339 Exhibit 22011-X0001, depreciation study, page 4-17, PDF page 69.
340 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
341 Exhibit 22011-X0001, depreciation study, page 5-11, PDF page 126.

431. Mr. Robinson made his recommendations based upon the results of his analysis of the available data.[342] AGA average service life statistics were not available, nor were any other peer statistics provided for this account.[343]

432. The UCA recommended there be close monitoring of life and dispersion characteristics for this account over the next few years due to its concerns related to the level of accuracy of the proposed Iowa curve being based on a stub curve.[344] [345]

Commission findings

433. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 15-R3 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data.[346] The Commission accepts this evidence as the basis for approving the proposed 15-R3 life-curve combination for Account 457.01 – underground storage plant – measuring and regulating equipment (electronic) as filed.

434. With respect to the UCA's recommendation for continued monitoring of this account, the Commission considers that monitoring activity occurs in conjunction with each depreciation study and therefore no independent finding or direction to reflect this recommendation is necessary.

9.4.5 Account 459.00 – underground storage plant – other underground storage equipment

435. Account 459.00 – underground storage plant – other underground storage equipment comprises approximately $4.8 million, or 0.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 38-S4 for this account which is a modification to the average service life and retirement dispersion from the approved 36-S4 for this account.

436. Mr. Robinson made his recommendations based upon the results of his analysis of the available data.[347] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 15 to 55 years with an average service life being 31 years. There were no other peer statistics provided for this account.[348]

437. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

438. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 38-S4 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[349]

342 Exhibit 22011-X0001, depreciation study, page 4-19, PDF page 71.
343 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
344 Exhibit 22011-X0138, UCA-AUC-2017FEB28-012, PDF page 24.
345 Exhibit 22011-X0165, UCA-AUC-2017APR11-001, PDF page 4.
346 Exhibit 22011-X0001, depreciation study, page 5-13, PDF page 128.
347 Exhibit 22011-X0001, depreciation study, page 4-21, PDF page 73.
348 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
349 Exhibit 22011-X0001, depreciation study, page 5-15, PDF page 130.

439. The Commission accepts this evidence as the basis for approving the proposed 38-S4 life-curve combination for Account 459.00 – underground storage plant – other underground storage equipment as filed.

9.4.6 Account 461.00 – transmission plant – land rights

440. Account 461.00 – transmission plant – land rights comprises approximately $81.3 million, or 4.8 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 80-R5 for this account which is a modification to the average service life and retirement dispersion from the approved 82-R5 for this account.

441. While observing that historical retirements of land rights has been limited, Mr. Robinson nonetheless made his recommendations based upon the results of his analysis of the available data.[350] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 32 to 90 years with an average service life being 69 years. There were no other peer statistics provided for this account.[351]

442. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

443. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 80-R5 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[352] However, based on the limited historical retirements experienced, the Commission is not convinced that a change in service life is required at this time. Further, given the nature of this account and it being associated with plant assets such as transmission mains that are generally experiencing longer lives, the Commission finds it counterintuitive that a shortening of the service life is reasonable or necessary.

444. Accordingly, the Commission directs ATCO Pipelines to maintain the existing 82-R5 life-curve for Account 461.00 – transmission plant – land rights in its compliance filing to this decision.

9.4.7 Account 462.00 – transmission plant – compressor structures and improvements

445. Account 462.00 – transmission plant – compressor structures and improvements comprises approximately $4.3 million, or 0.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 32-L1.5 for this account which is a modification to the average service life and retirement dispersion from the approved 35-L1.5 for this account.

446. Mr. Robinson made his recommendations based upon the results of his analysis of the available data and in consideration that there are potential building relocations in the future which would result in more interim retirements.[353] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 10 to 100 years with an average service life

350 Exhibit 22011-X0001, depreciation study, page 4-22, PDF page 74.
351 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
352 Exhibit 22011-X0001, depreciation study, page 5-17, PDF page 132.
353 Exhibit 22011-X0001, depreciation study, page 4-24, PDF page 76.

being 44 years. Peer statistics provided for this account indicated average service lives of 30 and 40 years.[354]

447. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

448. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 32-L1.5 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson, albeit at the lower end of the range.[355]

449. The Commission accepts this evidence as the basis for approving the proposed 32-L1.5 life-curve combination for Account 462.00 – transmission plant – compressor structures and improvements as filed.

9.4.8 Account 464.00 – transmission plant – other structures and improvements

450. Account 464.00 – transmission plant – other structures and improvements comprises approximately $0.7 million, or 0.0 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 50-R1.5 for this account which is a modification to the average service life and retirement dispersion from the approved 33-R4 for this account.

451. Mr. Robinson made his recommendations based on the results of his analysis of the available data and in consideration that there have been limited retirements since the last depreciation study. Mr. Robinson stated that the "more recent reduction of retirement activity"[356] was reflected in an increase in the average age of the property group and resulted in an increase in average service life to 50 years. AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 10 to 100 years with an average service life being 44 years. Peer statistics provided for this account indicated average service lives of 38, 50 and 55 years.[357]

452. When asked what circumstances could contribute to an increase of 17 years in average service life, Mr. Robinson stated "the modest increase in the level of overall retirements were somewhat more distributed across a broader range of years/ages, which indicated a better data fit to a 50-year average service life."[358] This latter statement appears to contradict Mr. Robinson's earlier statement of reduced retirement activity being reflected in an increase to average service life.

453. In response to the same IR questioning the graphical representation of the original and smooth survivor curve, Mr. Robinson agreed that moving the plotted Iowa survivor curve "further to the right would increase the life" of this asset account.

454. The UCA did not comment on the depreciation parameters proposed for this account.

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354 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
355 Exhibit 22011-X0001, depreciation study, page 5-21, PDF page 136.
356 Exhibit 22011-X0001, depreciation study, page 4-28 to 4-29, PDF pages 80-81.
357 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
358 Exhibit 22011-X0046, AP-AUC-2016NOV18-076(a), PDF page 56.

Commission findings

455. The Commission examined the graphical representation prepared by Mr. Robinson for this account and observes that the 50-R1.5 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson, albeit at the lower end of the range.[359] However, Mr. Robinson did not provide a clear explanation of how recent retirement activity, in being either increased or decreased, has impacted the service life for Account 464.00 – transmission plant – other structures and improvements.

456. The Commission is prepared to accept the proposed 50-R1.5 life-curve combination at this time on the basis there is a satisfactory visual fit to ATCO Pipelines' historical data and is within the range of average service life statistics provided by Mr. Robinson. However, the Commission directs ATCO Pipelines in its next depreciation study to explore whether or not a further lengthening of the average service life would not be reasonable for Account 464.00 – transmission plant – other structures and improvements.

9.4.9 Account 465.00 – transmission plant – mains

457. Account 465.00 – transmission plant – mains comprises approximately $1,182.4 million, or 70.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed maintaining the approved life-curve combination of 62-R2.5 for this account.

458. Mr. Robinson made his recommendation to continue with a 62-R2.5 life-curve for this account based upon the results of his analysis of the available data. Mr. Robinson also gave consideration to the potential for an increase in future levels of retirements due to a rise in infrastructure integrity assessments which are expected to result in utility plant upgrades and associated plant retirements. Continued relocations, replacement and upgrades may contribute to shortened life estimates in future years.[360] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 10 to 100 years with an average service life being 53 years. Peer statistics provided for this account indicated average service lives of 50, 60 and 65 years.[361]

459. When asked by the Commission to provide graphical representations for any life-curve combinations longer than 62 years that were contemplated by Mr. Robinson, he responded that no other life characteristic was estimated for this account.[362] In a second round of IRs, Mr. Robinson clarified his earlier response by stating that while no other life characteristics were estimated for Account 465.00 – transmission plant – mains, there were other life-curve combinations contemplated.[363]

460. Mr. Bowman and Ms. Lee recommended an increase in average service life to either 65 or 67 years stating that the ATCO Pipelines historical data visually supports an increase in life and would be consistent with industry comparators. Mr. Bowman and Ms. Lee considered that the middle part of the smooth curve (between 80 per cent and 20 per cent surviving) does not infer a good fit to the observed data and further, that the data points between age 69 to 87 years should either be all included or excluded in Mr. Robinson's analysis. Mr. Bowman and Ms. Lee

359 Exhibit 22011-X0001, depreciation study, page 5-27, PDF page 142.
360 Exhibit 22011-X0001, depreciation study, page 4-30 to 4-32, PDF pages 82-84.
361 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
362 Exhibit 22011-X0046, AP-2016NOV18-077(h), PDF page 59.
363 Exhibit 22011-X0166, AP-AUC-3028APR11-011, PDF pages 24-25.

contended that in the last depreciation study, these very same data points were excluded (or truncated) by Mr. Robinson in the observed life tables as being immaterial.[364]

461. Mr. Bowman and Ms. Lee also stated that given the recent separation (or creation) of Account 465.01 – transmission plant – in-line inspections from what was originally Account 465, all the shortest lived asset costs had now been removed to the sub account, which should intuitively result in a lengthening of the average service lives of those assets remaining in Account 465.00 – transmission plant – mains. When asked by the Commission, Mr. Bowman and Ms. Lee prepared three graphical representations of original and smooth survivor curves for Account 465.00 – transmission plant – mains illustrating increases to service life of three, four and five years.[365] In the UCA's view, the plotted line representing the 62-R2.5 life-curve proposed by ATCO Pipelines, was the "worst fit" of the four options plotted.[366]

462. ATCO Pipelines countered that the UCA had based its proposal on having selectively chosen only peers with the longest life for transmission mains, thereby incorrectly assigning other utilities mains characteristics and regulatory conditions to ATCO Pipelines and thus ignoring ATCO Pipelines actual historical experience for this account.[367]

Commission findings

463. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 62-R2.5 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[368] However, when comparing Mr. Robinson's proposal with the additional graphs provided by Mr. Robinson and Ms. Lee, the Commission observes that with each successive increase in average service life, the Iowa curve examined reflects a shift to the right, or movement towards the company data between the areas of 80 to 40 per cent surviving. This is an indication that more of the data points are being considered and represented in the estimation of an average service life which the Commission finds to be a more accurate outcome.

464. The Commission finds that an increase in average service life is warranted and directs ATCO Pipelines to incorporate a 67-R2.5 life-curve for Account 465.00 – transmission plant – mains in its compliance filing to this decision.

9.4.10 Account 466.00 – transmission plant – compressor equipment

465. Account 466.00 – transmission plant – compressor equipment comprises approximately $79.9 million, or 4.7 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 29-R1 for this account which is a modification to the average service life and retirement dispersion from the approved 32-R0.5 for this account.

466. Mr. Robinson made his recommendations based upon the results of his analysis of the available data and in consideration of increased levels of retirements at younger ages. The retirements were attributed to the implementation of a company-wide policy of capitalizing and

[364] Exhibit 22011-X0131, UCA depreciation evidence, PDF pages 30-36.
[365] Exhibit 22011-X0138, UCA-AUC-2017Feb28-021, PDF pages 44-48.
[366] Exhibit 22011-X0183, UCA argument, paragraph 57.
[367] Exhibit 22011-X0190, ATCO Pipelines reply argument, paragraphs 69-70.
[368] Exhibit 22011-X0001, depreciation study, page 5-31, PDF page 146.

subsequently retiring previous compressor components and overhauls as they are replaced by the current overhaul.[369] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 15 to 100 years with an average service life being 38 years. Peer statistics provided for this account indicated average service lives of 30 and 35 years.[370]

467. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

468. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 29-R1 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines' historical data and is within the range of average service life statistics provided by Mr. Robinson, albeit at the lower end of the range.[371]

469. The Commission accepts this evidence as the basis for approving the proposed 29-R1 life-curve combination for Account 466.00 – transmission plant – compressor equipment as filed.

9.4.11 Account 466.03 – transmission plant – compressor overhaul

470. Account 466.03 – transmission plant – compressor overhaul comprises approximately $6.9 million, or 0.4 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 9.5-SQ for this account which is a modification to the average service life and retirement dispersion from the approved 8.3-SQ for this account.

471. Given that this account was formed only recently, there are insufficient historical records available for analysis, therefore Mr. Robinson made his recommendations based on the expected period or interval between compressor overhauls. The current estimates of service life relied on input from ATCO Pipelines' engineering personnel based on their past experience with run times and related overhauls.[372] AGA average service life statistics were not available, nor were any other peer statistics provided for this account.[373]

472. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

473. The Commission finds that an average service life founded on the expected period or interval between compressor overhauls to be a reasonable method for this account. The Commission accepts this method as the basis for approving the proposed 9.5-SQ life-curve combination for Account 466.03 – transmission plant – compressor overhauls as filed.

9.4.12 Account 467.00 – transmission plant – measuring and regulating equipment

474. Account 467.00 – transmission plant – measuring and regulating equipment comprises approximately $140.0 million, or 8.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 35-R0.5 for this account which is a modification to the retirement dispersion from the approved 35-R1 for this account.

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369 Exhibit 22011-X0001, depreciation study, pages 4-35 and 4-36, PDF pages 87-88.
370 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
371 Exhibit 22011-X0001, depreciation study, page 5-37, PDF page 152.
372 Exhibit 22011-X0001, depreciation study, pages 4-39, PDF pages 91.
373 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

475. Mr. Robinson made his recommendations based on the results of his analysis of the available data. Mr. Robinson gave consideration to prospective activities whereby the life of older vintages of property "could be more impacted by somewhat limited increases in retirement level due to increased obsolescence, gas volume changes, increased physical failure, etc. In conjunction with such prospective activities various increased amounts of the older vintage properties will likely be retired, hence the percent surviving levels of the older age interval properties are anticipated to decline significantly from the current study levels."[374] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 15 to 76 years with an average service life being 32 years. Peer statistics provided for this account indicated average service lives of 30, 36, 45 and 50 years.[375]

476. Mr. Bowman and Ms. Lee recommended there be close monitoring of life and dispersion characteristics for this account over the next few years due to its concerns related to experienced retirements deviating from the Mr. Robinson's selected Iowa curve.[376] [377]

477. When asked by the Commission to provide graphical representations for any life-curve combinations longer than 35 years that were contemplated by Mr. Robinson, he responded that no other life characteristic was estimated for this account.[378] In a second round of IRs, Mr. Robinson clarified his earlier response stating that while no other life characteristics were estimated for Account 467.00 – transmission plant – measuring and regulating equipment, there were other life-curve combinations contemplated. Mr. Robinson subsequently provided, as requested, graphical representations for life-curve combinations of 38-R0.5, 39-R0.5 and 40-R0.5.[379]

Commission findings

478. The Commission has examined the three additional graphical representations provided by Mr. Robinson in his IR responses. The Commission observes that with each successive increase in average service life, the Iowa curve examined reflects a shift to the right, or away from the company data, between the areas of 80 to 50 per cent surviving while simultaneously moving towards the company data between the areas of 50 to 30 per cent surviving.

479. Despite that Mr. Robinson's rationale as quoted does not provide a clear explanation of how the prospective activities he considered impacted his recommendation to keep the same average service life for Account 467.00 – transmission plant – measuring and regulating equipment, the Commission is nonetheless prepared to accept the proposed 35-R0.5 life-curve combination at this time on the basis there is a satisfactory visual fit to ATCO Pipelines historical data and that it is within the range of average service life statistics provided by Mr. Robinson.[380]

480. However, the Commission directs ATCO Pipelines in its next depreciation study to explore whether or not a lengthening of average service life would be reasonable for Account 467.00 – transmission plant – measuring and regulating equipment.

374 Exhibit 22011-X0001, depreciation study, page 4-43, PDF page 95.
375 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
376 Exhibit 22011-X0138, UCA-AUC-2017FEB28-012, PDF page 25.
377 Exhibit 22011-X0165, UCA-AUC-2017APR11-001, PDF page 4.
378 Exhibit 22011-X0046, AP-2016NOV18-077(c), PDF page 64.
379 Exhibit 22011-X0166, AP-AUC-3028APR11-013(b), PDF pages 31-33.
380 Exhibit 22011-X0001, depreciation study, page 5-42, PDF page 157.

481. With respect to the UCA's recommendation for continued monitoring of this account, the Commission considers that monitoring activity occurs in conjunction with each depreciation study and therefore no independent finding or direction to reflect this recommendation is necessary.

9.4.13 Account 467.01 – transmission plant – measuring and regulating equipment (electronic)

482. Account 467.01 – transmission plant – measuring and regulating equipment (electronic) comprises approximately $46.5 million, or 2.8 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 25-R1.5 for this account which is a modification to the average service life and retirement dispersion from the approved 20-R3 for this account.

483. Mr. Robinson stated that the use of electronic equipment has been increasing and made his recommendations based upon the results of his analysis of the available data.[381] AGA average service life statistics were not available, nor were any other peer statistics provided for this account.[382]

484. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

485. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 25-R1.5 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical.[383]

486. The Commission accepts this evidence as the basis for approving the proposed 25-R1.5 life-curve combination for Account 467.01 – transmission plant – measuring and regulating equipment (electronic) as filed.

9.4.14 Account 467.03 – transmission plant – meters

487. Account 467.03 – transmission plant – meters comprises approximately $5.4 million, or 0.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 22-R4 for this account which is a modification to the average service life and retirement dispersion from the approved 18-R5 for this account.

488. Mr. Robinson made his recommendations based upon the results of his analysis of the available data.[384] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from five to 60 years with an average service life being 32 years. There were no other peer statistics provided for this account.[385]

489. The UCA did not comment on the depreciation parameters proposed for this account.

[381] Exhibit 22011-X0001, depreciation study, page 4-45, PDF page 97.
[382] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[383] Exhibit 22011-X0001, depreciation study, page 5-1, PDF page 116.
[384] Exhibit 22011-X0001, depreciation study, page 4-45, PDF page 97.
[385] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

Commission findings

490. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 22-R4 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson, albeit at the lower end of the range.[386]

491. The Commission accepts this evidence as the basis for approving the proposed 22-R4 life-curve combination for Account 467.03 – transmission plant – meters as filed.

9.4.15 Account 468.00 – transmission plant – communication structures and equipment

492. Account 468.00 – transmission plant – communication structures and equipment comprises approximately $1.2 million, or 0.1 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 35-R2 for this account which is a modification to the average service life and retirement dispersion from the approved 30-R2 for this account.

493. Mr. Robinson stated that although historical activity for this account has been intermittent, his recommendations were based upon the results of his analysis of the available data.[387] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from 15 to 60 years with an average service life being 24 years. There were no other peer statistics provided for this account.[388]

494. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

495. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 35-R2 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[389]

496. The Commission accepts this evidence as the basis for approving the proposed 35-R2 life-curve combination for Account 468.00 – transmission plant – communication structures and equipment as filed.

9.4.16 Account 482.00 – general plant – general structures

497. Account 482.00 – general plant – general structures comprises approximately $26.7 million, or 1.6 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 35-R2 for this account which is a modification to the average service life and retirement dispersion from the approved 37-R2.5 for this account.

498. Mr. Robinson stated his recommendation for a decrease in service life was based on future expectations that these facilities would continue to be utilized extensively and be subject to various upgrades anticipated to continue to occur at increasing levels.[390] AGA average service

386 Exhibit 22011-X0001, depreciation study, page 5-21, PDF page 136.
387 Exhibit 22011-X0001, depreciation study, pages 4-50 to 4-51, PDF pages 102-103.
388 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
389 Exhibit 22011-X0001, depreciation study, page 5-51, PDF page 166.
390 Exhibit 22011-X0001, depreciation study, page 4-48, PDF page 95.

life statistics provided in Mr. Robinson's depreciation study ranged from one to 76 years with an average service life being 35 years. Peer statistics provided for both frame and masonry versions of this account indicated average service lives of 20, 30, 40, 50 and 75 years.[391]

499. The UCA did not comment on the depreciation parameters proposed for this account.

500. In response to a Commission IR, Mr. Robinson provided a graphical representation using a 37-R2.5 life-curve combination, but stated that "the graph demonstrates that the current underlying life characteristic is not appropriate given that the Iowa curve fit."[392]

Commission findings

501. In comparing the two graphical representations, it appears that for the 37-R2.5 graph, there is a shift of the data away from the Iowa curve which implies a poorer fit than the 35-R2.5 life-curve proposed by Mr. Robinson. Therefore, the Commission accepts the proposed 35-R2.5 life-curve combination on the basis of the visual fit of ATCO Pipelines historical data and further, that the proposed life-curve is within the range of average service life statistics provided by Mr. Robinson.[393]

9.4.17 Account 484.02 – general plant – general transportation equipment (ancillary)

502. Account 484.02 – general plant – general transportation equipment (ancillary) comprises approximately $7.0 million, or 0.4 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 8-R3 for this account which is a modification to the average service life and retirement dispersion from the approved 7-R5 for this account.

503. Mr. Robinson based his recommendations upon the results of his analysis of the available data. Mr. Robinson stated that an Iowa 8-R3 curve provided an excellent fit to the ATCO Pipelines' historical data.[394] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from three to 25 years with an average service life being nine years. There were no other peer statistics provided for this account.[395]

504. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

505. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 8-R3 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[396]

506. The Commission accepts this evidence as the basis for approving the proposed 8-R3 life-curve combination for Account 484.02 – general plant – general transportation equipment (ancillary) as filed.

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391 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
392 Exhibit 22011-X0046, AP-AUC-2016NOV18-081(b), PDF page 66.
393 Exhibit 22011-X0001, depreciation study, page 5-42, PDF page 157.
394 Exhibit 22011-X0001, depreciation study, page 4-54, PDF pages 106.
395 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
396 Exhibit 22011-X0001, depreciation study, page 5-51, PDF page 166.

9.4.18 Account 484.03 – general plant – transportation equipment (trailers)

507. Account 484.03 – general plant – transportation equipment (trailers) comprises approximately $0.3 million, or 0.0 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a life-curve combination of 17-R4 for this account which is a modification to the average service life and retirement dispersion from the approved 16-R3 for this account.

508. Mr. Robinson based his recommendations upon the results of his analysis of the available data.[397] AGA average service life statistics provided in Mr. Robinson's depreciation study ranged from three to 25 years with an average service life being nine years. There were no other peer statistics provided for this account.[398]

509. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

510. The Commission has examined the graphical representation prepared by Mr. Robinson for this account and observes that the 17-R4 life-curve proposed appears to provide a satisfactory visual fit to ATCO Pipelines historical data and is within the range of average service life statistics provided by Mr. Robinson.[399]

511. The Commission accepts this evidence as the basis for approving the proposed 17-R4 life-curve combination for Account 484.03 – general plant –transportation equipment (trailers) as filed.

9.4.19 Account 499.00 – general plant – software (three-year, seven-year, and 10-year amortization periods)

512. Changes in amortization periods for ATCO Pipelines' non-customized software accounts were proposed. Instead of amortizing these assets on the basis of a square curve (SQ) over periods of five and 10 years, as was previously approved, ATCO Pipelines proposed[400] to use amortization periods of three years for desktop type[401] software, seven years for business specific[402] software and 10 years for enterprise type[403] software. These proposals, which were based on periods of expected use, did not form a component of the depreciation study prepared by Mr. Robinson.

513. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

514. The Commission agrees that average service lives based on the periods of expected use is a reasonable method for determining the average service life for ATCO Pipelines' three software accounts. The Commission accepts this rationale as the basis for approving the continued use of

397 Exhibit 22011-X0001, depreciation study, page 4-56, PDF pages 108.
398 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
399 Exhibit 22011-X0001, depreciation study, page 5-51, PDF page 166.
400 Exhibit 22011-X0005, application, PDF pages 159-161.
401 For example, Microsoft Office and Skype.
402 For example, Maximo and Bently.
403 For example, Oracle eBusiness and HRX.

a square curve methodology along with the proposed three-year service lives for desktop type[404] software, seven-year service lives for business specific[405] software and 10-year service lives for enterprise type[406] software as filed.

9.5 Net salvage per cent adjustments

515. In utility depreciation practices, net salvage refers to the difference between what the company anticipates it will cost to retire its assets from utility service (cost of removal), and any funds it receives as a result of the asset retirement (gross salvage). The estimate of net salvage is recovered as a component of depreciation expense throughout the life of the assets with the expectation that when assets are retired, any expenditures necessary to remove it from service have been made available to the utility through its depreciation practices. During the course of a depreciation study, such as the one filed in this proceeding, a net salvage analysis is undertaken with the objective of ensuring that the net salvage being collected continues to be indicative of future retirement cost expectations. This section examines the adjustments proposed by parties for the net salvage per cent for each account and the persuasiveness of the recommendations made therein.

516. Mr. Robinson proposed net salvage adjustments for 17 accounts. The UCA took issue with the net salvage recommendations for five accounts (accounts 452.00, 453.00, 454.00, 455.00 and 465.00).

9.5.1 The use of a decommissioning study

517. As indicated earlier, rather than use a traditional net salvage study as the basis for his net salvage per cent recommendations for ATCO Pipelines' underground storage asset accounts, Mr. Robinson relied on the results of a decommissioning study. The decommissioning study did not accompany ATCO Pipelines application or depreciation study, but was provided in response to IRs.

518. The decommissioning study was prepared by Stantec Consulting Ltd. (Stantec) on behalf of ATCO Pipelines, and was an assessment of the anticipated decommissioning costs for the company's underground storage assets on the basis of "Class 4 suspension, decommissioning and remediation …"[407] ATCO Pipelines indicated that the decommissioning study represents "a description and cost estimate of the decommissioning, remediation, and reclamation activities that will need to be carried out by AP at the time the Salt Cavern Storage Facility is decommissioned, in order to meet the Alberta Energy Regulator Directive 001."[408] The specific storage decommissioning cost (or cost of removal) estimates were determined at 2016 price levels and then adjusted by a 2.5 per cent inflation rate applied for the numbers of years equivalent to the average remaining life for each of the asset accounts examined. The resulting

404 For example, Microsoft Office and Skype.
405 For example, Maximo and Bently.
406 For example, Oracle eBusiness and HRX.
407 Exhibit 22011-X0071, Stantec Decommissioning Assessment: "The overall cost estimate classification applied to the combined estimates of suspension, decommissioning and remediation was Class 4 as recommended by the AACE International Cost Estimate Classification System Practice No. 18R-97. The typical accuracy ranges applied to Class 4 estimates are -15% to -30% on the low side, and +20 % to +50% on the high side depending on the technological complexity of the project, appropriate reference information, and other risks (after inclusion of an appropriate contingency determination)." PDF page 10.
408 Exhibit 22011-X0061, AP-UCA-2016NOV18-001(v), PDF page 9.

cost of removal (at the end of life) for each account was then expressed as a per cent of original historical cost in order to determine the negative net salvage per cent.

519. Proposed negative net salvage on the basis of a decommissioning study ranged from -1.0 to -691.0 per cent, whereas the same statistics, prepared on the basis of a traditional net salvage study, ranged from -5.0 to -20.0 per cent. ATCO Pipelines stated that "the detailed decommissioning study provides a more specific future cost related to the storage assets, as opposed to the typical historical net salvage/relationship analysis process."[409]

520. In responses to IRs, ATCO Pipelines indicated it had no specific plans to retire or decommission the salt caverns facility in the foreseeable future[410] and stated that a traditional net salvage study did not currently address the anticipated level of future cost of removal. This is because the bulk of net salvage costs will not occur until the overall property is retired from service,[411] and most of the historic data to date has been related to interim retirement activity.[412]

521. Mr. Bowman and Ms. Lee criticized the use of the decommissioning study as it was not prepared using a life span approach whereby each of the plant accounts would be life spanned to a single common or terminal retirement date. Mr. Bowman and Ms. Lee also stated that, among other things, a specific shortcoming of using the decommissioning study was that its purpose and consideration would be significantly different from those typically examined for depreciation study purposes as it applies to net salvage.[413] They also questioned the need, as a requirement under the AER Directive 001, for ATCO Pipelines to consider costs associated with a scenario of returning the underground storage facilities to farmland, as it may alternatively be able to redevelop the site or negotiate a commercial use. Mr. Bowman and Ms. Lee recommended the Commission reject the decommissioning study approach to setting net salvage per cents for ATCO Pipelines' underground storage assets.

522. ATCO Pipelines responded that applying a life span approach using the remaining life of Account 453 – underground storage – wells as the terminal retirement date for all underground storage accounts, would result in an additional $3.8 million of negative net salvage.[414] ATCO Pipelines argued that in the absence of any direction from the AUC, the AER Directive 001 is the only relevant guidance available to ATCO Pipelines.[415]

523. When asked under what circumstances a decommissioning assessment study would be relevant as it relates to the retirement of ATCO Pipelines underground storage assets, Mr. Bowman and Ms. Lee responded that at a minimum, there must be "a planned date of retirement and decommissioning for the Salt Cavern Gas Storage Facility."[416]

Commission findings

524. The Commission shares many of the concerns and issues raised by the UCA, most notably that ATCO Pipelines has no immediate or set plans to dispose of, or cease operation of,

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409 Exhibit 22011-X0071, AP-AUC-2016NOV18-071(f), PDF page 4.
410 Exhibit 22011-X0061, AP-UCA-2016NOV18-001(f), PDF page 6.
411 Exhibit 22011-X0166, AP-AUC-2017APR11-004(a), PDF page 7.
412 Exhibit 22011-X0139, rebuttal of Earl M. Robinson, Q&A 19, PDF page 33.
413 Exhibit 22011-X0131, UCA depreciation evidence, PDF pages 21-25.
414 Exhibit 22011-X0139, rebuttal of Earl M. Robinson, Q&A 22, PDF page 36.
415 Exhibit 22011-X0190, ATCO Pipelines reply argument, PDF page 11.
416 Exhibit 22011-X0138, UCA-AUC-2017FEB28-019(d), PDF page 40.

its underground storage assets. The Commission finds other aspects of the decommissioning study (for example, the relevance of a 2.5 per cent inflation rate) to be similarly troublesome or unsubstantiated. Indeed, ATCO Pipelines itself acknowledged that "… the cost of removal to retirement relationship is the standard net salvage analysis approach …"[417]

525. ATCO Pipelines has not convinced the Commission of the applicability of a decommissioning study for determining net salvage per cents for its underground storage assets. The Commission is not prepared to approve the proposed changes to net salvage per cents for underground storage assets premised on the use of the decommissioning study at this time. ATCO Pipelines is directed, in its next depreciation study, to revert back to a traditional net salvage study for the purposes of examining net salvage for its underground storage assets.

526. In the subsequent section of this decision, the Commission evaluates net salvage on the basis of the results of the traditional net salvage studies prepared by Mr. Robinson[418] and other evidence provided by ATCO Pipelines and intervening parties.

527. Finally, as noted earlier, the decommissioning study was not provided by ATCO Pipelines until the time of its responses to Round 1 IRs. The Commission considers that it would have been beneficial for ATCO Pipelines to have included the study in its application or depreciation study so that parties would have then been able to examine this piece of evidence and prepare IRs in the Round 1 process. This contributed to unnecessary delay and inefficiency in the process. The Commission is of the view that for regulatory efficiency, any evidence submitted by ATCO Pipelines in the future that is based on, or relies on a study, should generally accompany ATCO Pipelines' application.

9.5.2 Account 452.00 – underground storage plant – structures and improvements

528. Account 452.00 – underground storage plant – structures and improvements comprises approximately $2.6 million, or 0.2 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -691.0 per cent net salvage for this account based on the results of the Stantec decommissioning study which is a modification to the approved -5.0 per cent net salvage for this account.[419]

529. From 1987 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 0.0 per cent to -37.0 per cent, with an overall historical net salvage of -4.0 per cent. Three-year moving averages for this same period ranged from 0.0 per cent to -11.0 per cent, while the most recent three-year average net salvage was -7.0 per cent.[420] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from -1.0 per cent to -50.0 per cent with an average being -25.0 per cent. There were no other peer statistics provided for this account.[421]

530. Mr. Bowman and Ms. Lee recommended a net salvage of -10.0 per cent. This proposal was based on ATCO Pipelines' assertion at the time of its 2013-2014 GRA, that negative net salvage would be expected because buildings, which form a component of this account, cannot be easily moved. The proposed -10.0 per cent would be a return to the net salvage per cent

417 Exhibit 22011-X0166, AP-AUC-2017APR11-008, PDF page 18.
418 Exhibit 22011-X0045, AP-AUC-2016NOV18-071.
419 Exhibit 22011-X0001, depreciation study, pages 4-3 to 4-5, PDF pages 55-57.
420 Exhibit 22011-X0045, AP-AUC-2016NOV18-071(f) Attachment, PDF pages 112-115.
421 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

approved by the Commission prior to 2013 and, according to the UCA, would be consistent with the three-year moving averages experienced in recent years.[422]

Commission findings

531. The Commission observes that it is only cost of removal incurred in the year 2013 that is influencing the recent moving and overall average net salvage per cents in the net salvage study. The year 2013 did not form a component of ATCO Pipelines historical data at the time the net salvage per cent was reduced from -10.0 to -5.0 per cent, nor was any cost of removal experienced in the years after 2013.

532. The Commission does not consider that the cost of removal incurred in the year 2013 is significant enough to influence a change in the approved net salvage per cent for this account at this time. For this reason, the Commission denies ATCO Pipelines request to implement a net salvage of -691.0 per cent for Account 452.00 – underground storage plant – structures and improvements. ATCO Pipelines is directed to incorporate the approved net salvage of -5.0 per cent for Account 452.00 – underground storage plant – structures and improvements in its compliance filing to this decision.

9.5.3 Account 453.00 – underground storage plant – wells

533. Account 453.00 – underground storage plant – wells comprises approximately $16.9 million, or 1.0 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -154.0 per cent net salvage for this account based on the results of the Stantec decommissioning study. This proposal is a modification to the approved -20.0 per cent net salvage for this account.[423]

534. From 1990 to 2015, net salvage, has generally been incurred on a very sporadic basis and without any associated retirement recorded. On an overall historical basis, when expressed as a percentage of the original cost of the assets retired in each year, net salvage of -67.0 per cent was experienced. Three-year moving averages for this same period ranged from 0.0 per cent to -314.0 per cent, while the most recent three-year average net salvage was 0.0 per cent.[424] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from -2.0 per cent to -6.0 per cent with an average being -3.0 per cent. There were no other peer statistics provided for this account.[425]

535. Mr. Bowman and Ms. Lee recommended a net salvage of -20.0 per cent, stating that there was no rationale in ATCO Pipelines historical records to support an increase from the approved -20.0 per cent net salvage for this account.[426]

Commission findings

536. The Commission agrees with the UCA that the results of the traditional net salvage study do not support an increase in the approved -20.0 per cent net salvage. The Commission denies ATCO Pipelines request to implement a net salvage of -154.0 per cent for Account 453 – underground storage plant – wells.

422 Exhibit 22011-X0131, UCA depreciation evidence, PDF pages 25-26.
423 Exhibit 22011-X0001, depreciation study, pages 4-6 to 4-7, PDF pages 58-59.
424 Exhibit 22011-X0045, AP-AUC-2016NOV18-071(f) Attachment, PDF pages 116-118.
425 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
426 Exhibit 22011-X0131, UCA depreciation evidence, PDF page 26.

537. ATCO Pipelines is directed to incorporate the approved net salvage of -20.0 per cent for Account 453.00 – underground storage plant – wells in its compliance filing to this decision.

9.5.4 Account 454.00 – underground storage plant – well equipment

538. Account 454.00 – underground storage plant – well equipment comprises approximately $5.5 million, or 0.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -1.0 per cent net salvage for this account based on the results of the Stantec decommissioning study. This proposal is a modification to the approved -20.0 per cent net salvage for this account. Mr. Robinson stated that the range of ATCO Electric's historical net salvage data has been modestly negative.[427]

539. From 1991 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 10.0 per cent to -756.0 per cent, with an overall historical net salvage of -9.0 per cent. Three-year moving averages for this same period ranged from 5.0 per cent to -250.0 per cent, while the most recent three-year average net salvage was -2.0 per cent.[428] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 2.0 per cent to -6.0 per cent with an average being 3.0 per cent. There were no other peer statistics provided for this account.[429]

540. Mr. Bowman and Ms. Lee supported the proposed net salvage of -1.0 per cent. Mr. Bowman and Ms. Lee considered Mr. Robinson's statement that "equipment at the well sites has been modified so that the equipment will no longer require removal for servicing the wells"[430] as evidence that any expected future cost of removal would be less than historically incurred.[431]

Commission findings

541. The Commission finds that the results of the traditional net salvage study indicate that a change to the approved -20.0 per cent net salvage is justified. The Commission is not persuaded that there is sufficient support for the proposed -1.0 net salvage per cent on the basis of the statement made by Mr. Robinson.

542. The Commission approves a net salvage per cent of -9.0 for Account 454.00 – underground storage plant – well equipment on the basis of the overall results of the traditional net salvage study. ATCO Pipelines is directed to incorporate a net salvage of -9.0 per cent for Account 454.00 – underground storage plant – well equipment in its compliance filing to this decision.

9.5.5 Account 455.00 – underground storage plant – field lines

543. Account 455.00 – underground storage plant – field lines comprises approximately $2.5 million, or 0.1 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -13.0 per cent net salvage for this account based on the results of the Stantec decommissioning study. This proposal is a modification to the approved -5.0 per cent net salvage

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[427] Exhibit 22011-X0001, depreciation study, pages 4-10 to 4-11, PDF pages 62-63.
[428] Exhibit 22011-X0045, AP-AUC-2016NOV18-071(f) Attachment, PDF pages 121-123.
[429] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[430] Exhibit 22011-X0001, depreciation study, page 4-11, PDF page 63.
[431] Exhibit 22011-X0131, UCA depreciation evidence, PDF page 26.

for this account. Mr. Robinson offered no other rationale beyond the results of the Stantec study for his proposed change to the net salvage per cent for this account.[432]

544. From 1995 to 2015, net salvage, as a percentage of the original cost of the assets retired, indicates an overall historical net salvage of -6.0 per cent. Three-year moving averages for this same period ranged from 0.0 per cent to -45.0 per cent, while the most recent three-year average net salvage was -0.0 per cent.[433] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from -1.0 per cent to -90.0 per cent with an average being -28.0 per cent. There were no other peer statistics provided for this account.[434]

545. Mr. Bowman and Ms. Lee stated that based on the experienced net salvage for this account, the Commission is justified in maintaining the approved net salvage of -5.0 per cent.[435]

Commission findings

546. The Commission did not approve the use of the decommissioning study for the purposes of determining net salvage per cents, as discussed above in Section 9.5.1, and neither ATCO Pipelines nor Mr. Robinson has provided any other support for the proposed change to this account. Accordingly, the Commission rejects the proposed -13.0 per cent net salvage for this account.

547. The Commission approves the continuation of a net salvage per cent of -5.0 for Account 455.00 – underground storage plant – well equipment based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to maintain its approved net salvage of -5.0 per cent for Account 455.00 – underground storage plant –field lines in its compliance filing to this decision.

9.5.6 Account 456.00 – underground storage plant – compressor equipment

548. Account 456.00 – underground storage plant – compressor equipment comprises approximately $3.9 million, or 0.2 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -5.0 per cent net salvage for this account based on the results of the Stantec decommissioning study. Previously, there had not been any net salvage per cent approved for this account.[436]

549. From 1989 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 0.0 per cent to -52.0 per cent, with an overall historical net salvage of -1.0 per cent. Three-year moving averages for this same period ranged from 467.0 per cent to -92.0 per cent, while the most recent three-year average net salvage was -5.0 per cent.[437] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from -1.0 per cent to -35.0 per cent with an average being -14.0 per cent. There were no other peer statistics provided for this account.[438]

550. The UCA did not comment on the depreciation parameters proposed for this account.

[432] Exhibit 22011-X0001, depreciation study, pages 4-12 to 4-13, PDF pages 64-65.
[433] Exhibit 22011-X0045, AP-AUC-2016NOV18-071(f) Attachment, PDF pages 121-123.
[434] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[435] Exhibit 22011-X0131, UCA depreciation evidence, PDF page 26.
[436] Exhibit 22011-X0001, depreciation study, pages 4-14 to 4-15, PDF pages 66-67.
[437] Exhibit 22011-X0045, AP-AUC-2016NOV18-071(f) Attachment, PDF pages 127-128.
[438] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

Commission findings

551. The Commission finds that the results of the traditional net salvage study do not support a net salvage per cent for this account at this time.

552. The Commission denies the use of a net salvage per cent of -5.0 for Account 456.00 – underground storage plant – compressor equipment based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to maintain its currently approved net salvage of 0.0 per cent for Account 456.00 – underground storage plant – compressor equipment in its compliance filing to this decision.

9.5.7 Account 457.00 – underground storage plant – measuring and regulating equipment

553. Account 457.00 – underground storage plant – measuring and regulating equipment comprises approximately $6.9 million, or 0.4 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -3.0 per cent net salvage for this account based on the results of the Stantec decommissioning study. Mr. Robinson indicated that net salvage for this account has been limited but generally negative as there is often no or limited gross salvage.[439]

554. From 1986 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 69.0 per cent to -1,408.0 per cent, with an overall historical net salvage of -2.0 per cent. Three-year moving averages for this same period ranged from 15.0 per cent to -1,408.0 per cent, while the most recent three-year average net salvage was 0.0 per cent.[440] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from -1.0 per cent to -55.0 per cent with an average being -19.0 per cent. There were no other peer statistics provided for this account.[441]

555. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

556. The Commission finds that the results of the traditional net salvage study indicate that a change to the approved -10.0 per cent net salvage is justified.

557. The Commission approves a net salvage per cent of -2.0 for Account 456.00 – underground storage plant – well equipment based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to incorporate a net salvage of -2.0 per cent for Account 456.00 – underground storage plant – measuring and regulating equipment in its compliance filing to this decision.

9.5.8 Account 461.00 – transmission plant – land rights

558. Account 461.00 – transmission plant – land rights comprises approximately $81.3 million, or 4.8 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -10.0 per cent net salvage for this account based on the results of a traditional net

439 Exhibit 22011-X0001, depreciation study, pages 4-16 to 4-17, PDF pages 68-69.
440 Exhibit 22011-X0045, AP-AUC-2016NOV18-071(f) Attachment, PDF pages 130-133.
441 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

salvage study. Mr. Robinson indicated that negative net salvage is necessary for this account as survey and legal costs incurred are greater than "proceeds."[442]

559. From 1962 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 240.0 per cent to -541.0 per cent, with an overall historical net salvage of -10.0 per cent. Three-year moving averages for this same period ranged from 240.0 per cent to -541.0 per cent, while the most recent three-year average net salvage was 0.0 per cent.[443] AGA net salvage statistics provided in Mr. Robinson's depreciation study indicated an average of -10.0 per cent. There were no other peer statistics provided for this account.[444]

560. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

561. The Commission finds that the results of the traditional net salvage study indicate that a change to the approved -20.0 per cent net salvage is justified.

562. Based on the overall results of the traditional net salvage study, the Commission approves a net salvage per cent of -10.0 for Account 461.00 – transmission plant – land rights as filed. However, the Commission is interested in the types of legal expenses and proceeds Mr. Robinson has referred to as being incurred for land rights, particularly in light of Account 451.00 – underground storage plant – land rights not appearing to have similar types of removal costs. The Commission directs ATCO Pipelines in its next depreciation study to discuss the nature of the proceeds and removal costs being charged to this account and the continued necessity for any negative net salvage per cent.

9.5.9 Account 463.00 – transmission plant – measuring and regulating structures

563. Account 463.00 – transmission plant – measuring and regulating structures comprises approximately $10.7 million, or 0.6 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -25.0 per cent net salvage for this account based on the results of a traditional net salvage study. Mr. Robinson indicated that the proposed increase to negative net salvage is due to costs escalating to significant and high levels over the past decade or more.[445]

564. From 1958 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 69.0 per cent to -1,398.0 per cent, with an overall historical net salvage of -30.0 per cent. Three-year moving averages for this same period ranged from 41.0 per cent to -765.0 per cent, while the most recent three-year average net salvage was -67.0 per cent.[446] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 3.0 per cent to -50.0 per cent with an average being -17.0 per cent. Peer statistics provided for this account indicated net salvage values of 0.0 per cent and -15.0 per cent.[447]

565. The UCA did not comment on the depreciation parameters proposed for this account.

442 Exhibit 22011-X0001, depreciation study, pages 4-22 to 4-23, PDF pages 74-75.
443 Exhibit 22011-X0001, depreciation study, pages 9-3 to 9-7, PDF pages 359-363.
444 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
445 Exhibit 22011-X0001, depreciation study, pages 4-26 to 4-27, PDF pages 78-79.
446 Exhibit 22011-X0001, depreciation study, pages 9-3 to 9-7, PDF pages 359-363.
447 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

Commission findings

566. The Commission observes that the results of the traditional net salvage study show some general trend toward increasing negative net salvage per cents, but is concerned about the long term nature of these statistics given the seemingly erratic quantum of both plant retirements and associated cost of removal.

567. For this reason, the Commission is not prepared at this time to increase the approved net salvage of -15.0 per cent to the proposed -25.0 per cent. The Commission finds instead that an increase in net salvage to -20.0 per cent acknowledges the general trend towards increasing negative net salvage and is still well within the range of the peer statistics provided by Mr. Robinson for Account 463.00 – transmission plant – measuring and regulating.

568. ATCO Pipelines is directed to incorporate a net salvage of -20.0 per cent in its compliance filing to this decision for Account 463.00 – transmission plant – measuring and regulating.

9.5.10 Account 464.00 – transmission plant – other structures and improvements

569. Account 464.00 – transmission plant – other structures and improvements comprises approximately $0.7 million, or 0.1 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -15.0 per cent net salvage for this account based on the results of a traditional net salvage study. Mr. Robinson indicated that despite the limited net salvage experienced to date for this account, expectations for future cost of removal would consist of only a modest level of work effort and cost.[448]

570. From 1960 to 2015, there was a single instance of cost of removal in the year 1994 and the percentage of the original cost of the assets retired that year was -77.0 per cent. This equated to an overall historical net salvage of -15.0 per cent. Three-year moving averages for this same period were also -77.0 per cent, while the most recent three-year average net salvage was 0.0 per cent.[449] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 3.0 per cent to -50.0 per cent with an average being -17.0 per cent. Peer statistics provided for this account indicated net salvage values of 0.0 per cent and -5.0 per cent.[450]

571. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

572. The Commission has observed that during the 55-year period tracked by ATCO Pipelines for this account, there have been 12 instances of plant retirements and only one of those retirements has resulted in cost of removal being incurred.[451] Combined with Mr. Robinson's statement that similar if not less cost of removal is anticipated in the future,[452] the Commission considers that a further reduction in negative net salvage per cent is warranted despite the overall -15.0 per cent net salvage indicated in the traditional net salvage study for this account.

[448] Exhibit 22011-X0001, depreciation study, pages 4-28 to 4-29, PDF pages 80-81.
[449] Exhibit 22011-X0001, depreciation study, pages 9-28 to 9-29, PDF pages 381-385.
[450] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[451] The 12 plant retirement transactions total $0.158 million and the single cost of removal transaction totals $0.023 million.
[452] Exhibit 22011-X0001, depreciation study, pages 4-28 to 4-29, PDF pages 80-81.

573. The Commission is of the view that, based on the evidence, there may not be a requirement for negative net salvage for this account. However, the Commission finds it reasonable at this time to incorporate a net salvage of -10.0 per cent, and to review this parameter at the time of ATCO Pipeline's next depreciation study, to determine if a further reduction would be warranted.

574. ATCO Pipelines is directed to incorporate a net salvage of -10.0 per cent in its compliance filing to this decision for Account 464.00 – transmission plant – other structures and improvements.

9.5.11 Account 465.00 – transmission plant – mains

575. Account 465.00 – transmission plant – mains comprises approximately $1,182.4 million, or 70.0 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -80.0 per cent net salvage for this account based on the results of a traditional net salvage study.

576. Mr. Robinson indicated that more than half of the recent retirement and cost of removal experienced was related to "continuous and ongoing routine projects of less than $500,000." The remaining retirement and cost of removal experienced was for other projects related to "pipeline integrity, asbestos coating, terrain and bank issues, water scouring or other issues." These latter project types can be anticipated to occur in the future at even greater levels.[453]

577. With respect to the proposed future net salvage estimate of -80.0 per cent, Mr. Robinson stated it is "imperative that the company fully identify, anticipate, and seek recovery of the increasingly large future costs associated with the retirement of Mains at the end of property life." Mr. Robinson considered that although the statistics in the traditional net salvage study would validate a larger negative net salvage, per cent, historically, ATCO Pipelines has sought to increase the level of negative net salvage in a modest manner.[454] [455]

578. From 1958 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 23.0 per cent to -633.0 per cent, with an overall historical net salvage of -101.0 per cent. Three-year moving averages for this same period ranged from 11.0 per cent to -583.0 per cent, while the most recent three-year average net salvage was -143.0 per cent.[456] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 0.0 per cent to -90.0 per cent with an average being -26.0 per cent. Peer statistics provided for this account indicated net salvage values of 0.0 per cent, -10.0 per cent and -20.0 per cent.[457]

579. Mr. Bowman and Ms. Lee identified four reasons for concern with respect to the proposed -80.0 per cent net salvage for Account 465.00 – transmission plant – mains:[458]

(a) There are data quality issues due to an unclarified impact of third-party relocations and funding of the cost of removal of those relocations requested by the third party.

453 Exhibit 22011-X0001, depreciation study, pages 4-30 to 4-32, PDF pages 82-84.
454 Exhibit 22011-X0001, depreciation study, pages 4-30 to 4-32, PDF pages 82-84.
455 Exhibit 22011-X0166, AP-AUC-2017APR11-008, PDF page 19.
456 Exhibit 22011-X0001, depreciation study, pages 9-32 to 9-37, PDF pages 388-393.
457 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
458 Exhibit 22011-X0131, UCA depreciation evidence, PDF pages 28-30.

(b) Both the current -50.0 per cent net salvage and proposed -80.0 per cent net salvage are well outside any relevant industry comparisons.

(c) There are insufficient mitigation and moderation considerations given that the net salvage per cents are driven to a significant degree by ATCO Pipelines very new and long lived assets, and that these assets are being subject to "course estimates of salvage costs that will not be incurred for decades."

(d) General regulatory oversight of salvage spending should be of concern as net salvage approaches levels of -80.0 per cent.

580. Mr. Bowman and Ms. Lee asserted that the current -50.0 per cent net salvage should be maintained. Not only would this relatively lower level of negative net salvage reduce proposed depreciation expense by approximately $7.0 million annually, it would still be an amount sufficient to allow ATCO Pipelines to "more than fully recovery through depreciation expense the typical annual Mains net salvage spending over the last decade."[459] The UCA argued it was premature to increase negative net salvage to -80.0 per cent stating that the Commission should retain the status quo until ATCO Pipelines provides an adequate explanation of why its cost of removal experience differs so dramatically from industry. The UCA was also critical of ATCO Pipelines attempting to simultaneously normalize the very high cost of removal being incurred, while deeming that peer comparison is unhelpful.[460]

581. Mr. Robinson contended that ATCO Pipelines has continued to incur costs to disconnect and remove transmission mains in its service territory and with continually increasing regulations and requirements, there is no reasonable expectation that the costs of removal, as a per cent of retirements, will decline in future years. Mr. Robinson also discounted any peer group comparisons made by the UCA, arguing that with respect to transmission mains and the attendant investment levels, operating characteristics and plant densities of any potential peer companies, there is no comparable entity.[461]

582. ATCO Pipelines argued that peer analysis is not relevant to developing ATCO Pipelines' depreciation parameters and that its actual cost of removal experience should be the main consideration in establishing negative net salvage per cents. Among the causes identified with respect to increasing cost of removal were increased contractor costs, increased regulation and project location, asbestos costing, terrain and bank issues, and water scouring, all of which will continue to increase as ATCO Pipelines' infrastructure ages. Further, abandoned pipelines will incur further removal costs in future years.[462]

583. In response to Commission IRs, ATCO Pipelines provided information indicating that generally, the large retirement and cost of removal experienced in Account 465 00 – transmission plant – mains has not been related to a lower number of larger cost projects, but to a higher number of lower costs projects. For example, despite that the year 2015 had the highest quantum of retirements ($10 million) and negative net salvage ($11 million) of any year examined in the net salvage study, there was only one project contributing approximately

[459] Exhibit 22011-X0131, UCA depreciation evidence, PDF pages 28-30.
[460] Exhibit 22011-X0183, UCA argument, paragraphs 45-46.
[461] Exhibit 22011-X0139, rebuttal evidence, Q&A 23, PDF page 37.
[462] Exhibit 22011-X0178, ATCO Pipelines argument, paragraphs 28, 32, 33 and 36.

25.0 per cent of the costs incurred, whereas all other projects identified were significantly smaller in their impact to overall retirement and cost of removal costs in 2015.[463] [464]

584. The Commission also questioned whether total actual retirements and cost of removal, each in amounts of $0.054 billion should be representative of future net salvage costs of -80.0 per cent for an account with approximately $1.2 billion in plant assets over the test period. ATCO Pipelines responded stating that the recommended net salvage was based on actual experience and therefore reasonable and conservative compared to the "linear trend at -160%."[465]

585. ATCO Pipelines did not view the relationship between retirements to plant balance as a driver of the costs of removal to retirement relationship.[466]

Commission findings

586. The Commission observes that the results of the traditional net salvage study show a general trend toward increasing negative net salvage per cents, but is concerned about the long term nature of these statistics given that ATCO Pipelines has indicated a reduction in overall forecast cost of removal from earlier levels.[467]

587. For this reason, the Commission is not prepared at this time to increase the approved net salvage of -50.0 per cent to the proposed -80.0 per cent. The Commission finds that the currently approved -50.0 per cent is still well within the range of the peer statistics for Account 465.00 – transmission plant – mains and in fact closer to the peer statistics than the -80.0 per cent estimate provided by Mr. Robinson.

588. The Commission denies the use of a net salvage per cent of -80.0 for Account 465.00 – transmission plant – mains and ATCO Pipelines is directed to maintain its currently approved net salvage of -50.0 per cent in its compliance filing to this decision.

9.5.12 Account 466.00 – transmission plant – compressor equipment

589. Account 466.00 – transmission plant – compressor equipment comprises approximately $79.9 million, or 4.7 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -20.0 per cent net salvage for this account based on the results of a traditional net salvage study. Mr. Robinson indicated that cost of removal has been experienced in this account on a consistent basis for a number of years, and further, has been increasing to historically high levels over the past 10 year or more.[468]

590. From 1958 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 97.0 per cent to -388.0 per cent, with an overall historical net salvage of -33.0 per cent. Three-year moving averages for this same period ranged from 95.0 per cent to -105.0 per cent, while the most recent three-year average net salvage was -105.0 per

463 Exhibit 22011-X0046, AP-AUC-2016NOV18-077, PDF pages 57-60.
464 Exhibit 22011-X0166, AP-AUC-2017APR11-009, PDF pages 21-22.
465 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(b), PDF page 8.
466 Exhibit 22011- X0166, AP-AUC-2017APR11-008, PDF pages 18.
467 Exhibit 22011-X0003, ATCO Pipelines, 2017-2018 GRA Financial Schedules, Schedule 2.2-2, line 18: 2015 actual $12.157 million, 2016 estimate $9.313 million, 2017 forecast $9.128 million and 2018 forecast $8.565 million.
468 Exhibit 22011-X0001, depreciation study, pages 4-35 to 4-36, PDF pages 87-88.

cent.[469] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 20.0 per cent to -35.0 per cent with an average being -6.0 per cent. Peer statistics provided for this account indicated net salvage values of -2.0 per cent and -5.0 per cent.[470]

591. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

592. The Commission observes that the results of the traditional net salvage study show a general trend toward increasing negative net salvage per cents, but is concerned about the long term nature of these statistics given the seemingly erratic quantum of both plant retirements and associated cost of removal.

593. For this reason, the Commission is not prepared at this time to increase the approved net salvage of -5.0 per cent to the proposed -20.0 per cent. The Commission finds that the currently approved -5.0 per cent is still well within the range of the peer statistics for Account 466.00 – transmission plant – compressor equipment and in fact closer to the peer statistics than the -20.0 per cent estimate provided by Mr. Robinson.

594. The Commission denies the use of a net salvage per cent of -20.0 for Account 466.00 – transmission plant – compressor equipment and ATCO Pipelines is directed to maintain the currently approved net salvage of -5.0 per cent in its compliance filing to this decision.

9.5.13 Account 466.01 – transmission plant – compressor equipment (electronic)

595. Account 466.01 – transmission plant – compressor equipment (electronic) comprises approximately $10.2 million, or 0.6 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -15.0 per cent net salvage for this account based on the results of a traditional net salvage study. Mr. Robinson indicated that cost of removal has escalated to significant high levels in the past 10 years.[471]

596. From 2006 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 0.0 per cent to -300.0 per cent, with an overall historical net salvage of -21.0 per cent. Three-year moving averages for this same period ranged from -9.0 per cent to -67.0 per cent, while the most recent three-year average net salvage was -61.0 per cent.[472] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from -1.0 per cent to -35.0 per cent with an average being -14.0 per cent. Peer statistics were not provided for this account.[473]

597. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

598. The Commission observes that the results of the traditional net salvage study show an erratic quantum of both plant retirements and associated cost of removal. For example, in five of the 10 years for which retirement and cost of removal data was provided, four years indicated no

469 Exhibit 22011-X0001, depreciation study, pages 9-40 to 9-45, PDF pages 396-401.
470 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
471 Exhibit 22011-X0001, depreciation study, pages 4-37 to 4-38, PDF pages 89-90.
472 Exhibit 22011-X0001, depreciation study, pages 9-48 to 9-49, PDF pages 404-405.
473 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

cost of removal being incurred and one year indicates a cost of removal of -4.0 per cent of plant retirements.

599. The Commission is not prepared at this time to approve a net salvage of -15.0 per cent. The Commission finds it preferable to adopt a gradual approach to implementing negative net salvage for this account and approves a net salvage of -5.0 per cent based on a net salvage of -5.0 per cent approved for Account 466.00 – transmission plant – compressor equipment.

600. ATCO Pipelines is directed to incorporate a net salvage of -5.0 per cent in its compliance filing to this decision for Account 466.01 – transmission plant – compressor equipment (electronic).

9.5.14 Account 467.00 – transmission plant – measuring and regulating equipment

601. Account 467.00 – transmission plant – measuring and regulating equipment comprises approximately $140.0 million, or 8.3 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -35.0 per cent net salvage for this account based on the results of a traditional net salvage study. Mr. Robinson indicated that ATCO Pipelines, over the last 20 years, has routinely experienced in excess of -35.0 per cent net salvage in conjunction with significant plant retirements and these statistics supported the recommended net salvage of -35.0 per cent for this account. Mr. Robinson stated it is "imperative that the company fully identify, anticipate, and seek recovery of the increasingly large future costs associated with the retirement of M & R Equipment at the end of property life."[474]

602. From 1958 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 64.0 per cent to -720.0 per cent, with an overall historical net salvage of -33.0 per cent. Three-year moving averages for this same period ranged from 44.0 per cent to -76.0 per cent, while the most recent three-year average net salvage was -51.0 per cent.[475] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 0.0 per cent to -30.0 per cent with an average being -12.0 per cent. Peer statistics provided for this account indicated net salvage values of 0.0 per cent, -7.0 per cent, -10.0 per cent and -35.0 per cent.[476]

603. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

604. The Commission observes that the results of the traditional net salvage study show some general trend toward increasing negative net salvage per cents, notwithstanding the seemingly erratic quantum of both plant retirements and associated cost of removal.

605. The Commission is not prepared at this time to increase the approved net salvage of -25.0 per cent to the proposed -35.0 per cent. The Commission finds instead that an increase in net salvage to -30.0 per cent acknowledges the general trend towards increasing negative net salvage and is still well within the range of the peer statistics provided by Mr. Robinson for Account 467.00 – transmission plant – measuring and regulating equipment.

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[474] Exhibit 22011-X0001, depreciation study, pages 4-43 to 4-44, PDF pages 95-96.
[475] Exhibit 22011-X0001, depreciation study, pages 9-56 to 9-61, PDF pages 412-417.
[476] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

606. ATCO Pipelines is directed to incorporate a net salvage of -30.0 per cent in its compliance filing to this decision for Account 467.00 – transmission plant – measuring and regulating equipment.

9.5.15 Account 482.00 – general plant – structures

607. Account 482.00 – general plant – structures comprises approximately $26.7 million, or 1.6 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a -3.0 per cent net salvage for this account based on the results of a traditional net salvage study. Mr. Robinson indicated that some negative net salvage is still expected to occur in conjunction with either rehabilitation or disposition of the facilities at the end of their useful lives.[477]

608. From 1999 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 11.0 per cent to -56.0 per cent, with an overall historical net salvage of -1.0 per cent. Three-year moving averages for this same period ranged from 5.0 per cent to -56.0 per cent, while the most recent three-year average net salvage was -2.0 per cent.[478] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 25.0 per cent to -20.0 per cent with an average being -2.0 per cent. Peer statistics provided for this account indicated net salvage values of 20.0 per cent, 0.0 per cent and -10.0 per cent.[479]

609. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

610. The Commission observes that it is generally the cost of removal incurred in the years 2002 and 2015 for Account 482.00 – general plant – structures that have influenced the range of year over year net salvage per cents in the net salvage study. The degree of negative net salvage for these two years appears to be an anomaly, however, even with the data for those years included and examined on an overall historical basis, the result is a -1.0 per cent net salvage statistic.

611. The Commission agrees with ATCO Pipelines that a modification to the net salvage of -5.0 per cent for Account 482.00 – general plant – structures is required. The Commission approves a net salvage of -1.0 per cent for Account 482.00 – general plant – structures based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to incorporate a -1.0 per cent in its compliance filing to this decision for Account 482.00 – general plant – structures.

9.5.16 Account 484.00 – general plant – transportation equipment and Account 485.00 – general plant – heavy work equipment

Account 484.00

612. Account 484.00 – general plant – transportation equipment comprises approximately $7.0 million, or 0.4 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed an 18.0 per cent net salvage for this account based on the results of a traditional net salvage study.[480]

[477] Exhibit 22011-X0001, depreciation study, pages 4-50 to 4-51, PDF pages 102-103.
[478] Exhibit 22011-X0001, depreciation study, pages 9-84 to 9-86, PDF pages 440-442.
[479] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[480] Exhibit 22011-X0001, depreciation study, pages 4-52 to 4-53, PDF pages 104-105.

613. From 2002 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 90.0 per cent to -3.0 per cent, with an overall historical net salvage of 19.0 per cent. Three-year moving averages for this same period ranged from 38.0 per cent to 9.0 per cent, while the most recent three-year average net salvage was 17.0 per cent.[481]

614. AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 27.0 per cent to 0.0 per cent with an average being 10.0 per cent. Peer statistics provided for this account indicated net salvage values of 0.0 per cent, 4.0 per cent, 10.0 per cent, 20.0 per cent, 25.0 per cent and 30.0 per cent.[482]

615. The UCA did not comment on the depreciation parameters proposed for this account.

Account 485.00

616. Account 485.00 – general plant – heavy work equipment comprises approximately $2.4 million, or 0.1 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed a 12.0 per cent net salvage for this account based on the results of a traditional net salvage study.[483]

617. From 2002 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 30.0 per cent to 0.0 per cent, with an overall historical net salvage of 9.0 per cent. Three-year moving averages for this same period ranged from 29.0 per cent to 0.0 per cent, while the most recent three-year average net salvage was 0.0 per cent.[484] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 35.0 per cent to 2.0 per cent with an average being 16.0 per cent. Peer statistics provided for this account indicated net salvage values of 5.0 per cent, 20.0 per cent, 25.0 per cent and 30.0 per cent.[485]

618. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

619. In response to a Commission IR questioning the reason for the general trend towards increasing gross salvage in Account 484 – general plant – transportation equipment, ATCO Pipelines responded that as the size of the fleet has increased so would the number of vehicles being retired and therefore, was directly related to the increasing gross salvage values.[486]

620. However, in another response to a Commission IR asking why there was no gross salvage being recorded in Account 485.00 – general plant – heavy work equipment in the years 2014 and 2015 despite retirement transactions in those same years, ATCO Pipelines responded that gross salvage that should have been recorded in Account 485.00 had inadvertently been recorded in Account 484.00.[487]

621. Given the errors in ATCO Pipelines data, the conflicting statements in the IR responses to the Commission with respect to these two accounts and further, the lack of assurance that the

[481] Exhibit 22011-X0001, depreciation study, pages 9-89 to 9-91, PDF pages 445-447.
[482] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[483] Exhibit 22011-X0001, depreciation study, pages 4-58 to 4-59, PDF pages 110-111.
[484] Exhibit 22011-X0001, depreciation study, pages 9-104 to 9-106, PDF pages 460-462.
[485] Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.
[486] Exhibit 22011-X0046, AP-AUC-2016NOV18-082, PDF page 68.
[487] Exhibit 22011-X0046, AP-AUC-2016NOV18-084, PDF page 70.

requested modifications to the net salvage per cents remain reasonable despite the errors, the Commission is unable to accept the recommendations proposed by Mr. Robinson.

622. The Commission directs ATCO Pipelines to maintain the approved net salvage of 15.0 per cent for each of Account 484 – general plant – transportation equipment and Account 485.00 – general plant – heavy work equipment in its compliance filing to this decision.

623. The Commission may consider any proposals to change the net salvage per cents for these two accounts once the corrections to the data have been reflected and subsequent analysis is conducted by ATCO Pipelines in its next depreciation study.

9.5.17 Account 484.03 – general plant – transportation equipment (trailers)

624. Account 484.03 – general plant – transportation equipment (trailers) comprises approximately $0.3 million, or 0.0 per cent of ATCO Pipelines' depreciable plant studied. Mr. Robinson proposed an 8.0 per cent net salvage for this account based on the results of a traditional net salvage study.[488]

625. From 2008 to 2015, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged from 30.0 per cent to -3.0 per cent, with an overall historical net salvage of 8.0 per cent. Three-year moving averages for this same period ranged from 8.0 per cent to 0.0 per cent, while the most recent three-year average net salvage was 0.0 per cent.[489] AGA net salvage statistics provided in Mr. Robinson's depreciation study ranged from 27.0 per cent to 0.0 per cent with an average being 10.0 per cent. Peer statistics were not provided for this account.[490]

626. The UCA did not comment on the depreciation parameters proposed for this account.

Commission findings

627. The Commission finds that the results of the traditional net salvage study indicate that a change to the approved 5.0 per cent net salvage is justified. The Commission observes that retirements, gross salvage and cost of removal transactions have been sporadic and in varying amounts in the eight years of data provided for this account. However, in the years where there has been gross salvage recorded, it has represented net salvage values of 8.0 per cent or greater.

628. The Commission accepts the proposed net salvage of 8.0 per cent for Account 484.03 – general plant – transportation equipment (trailers) as filed.

9.6 Summary of approvals

629. The findings of the Commission with respect to ATCO Pipelines' 2017-2018 estimated average service lives, Iowa survivor curves and net salvage percentages, based on the reasons provided in the previous sections of this decision, have been summarized in the following two tables:

488 Exhibit 22011-X0001, depreciation study, pages 4-56 to 4-57, PDF pages 108-109.
489 Exhibit 22011-X0001, depreciation study, pages 9-100 to 9-101, PDF pages 456-457.
490 Exhibit 22011-X0046, AP-AUC-2016NOV18-074(c), PDF pages 17-18.

Table 45. Summary of proposed and approved 2017-2018 estimated average service lives, Iowa curves and net salvage per cents for ATCO Pipelines' transmission and general plant accounts

		Proceeding 22011 2017-2018 proposed by ATCO Pipelines		Proceeding 22011 2017-2018 approved	
Account		Life-curve	Net salvage	Life-curve	Net salvage
	Underground storage plant				
451.00	Land rights	75-R5	-	75-R5	-
452.00	Structures & improvements	37-S4	-691	37-S4	-5
453.00	Wells	50-R4	-154	50-R4	-20
453.01	Well inspections	10-SQ	-	10-SQ	-
454.00	Well equipment	20-R3	-1	24-R3	-9
455.00	Field lines	25-R4	-13	25-R4	-5
456.00	Compressor equipment	30-R3	-5	30-R3	-
457.00	Measuring & regulating equipment	36-R4	-3	36-R4	-2
457.01	Measuring & regulating electronic	15-R3	-	15-R3	-
459.00	Other underground storage equipment	38-S4	-	38-S4	-
	Transmission plant				
461.00	Land rights	80-R5	-10	82-R5	-10
462.00	Compressor structures & improvements	32-L1.5	-5	32-L1.5	-5
463.00	Measuring & regulating structures	50-R2	-25	50-R2	-20
464.00	Other structures & improvements	50-R1.5	-15	50-R1.5	-10
465.00	Mains	62-R2.5	-80	67-R2.5	-50
465.01	In line inspection	8-R4	-	8-R4	-
466.00	Compressor equipment	29-R1	-20	29-R1	-5
466.01	Compressor equipment electronic	20-R3	-15	20-R3	-5
466.03	Compressor overhaul	9.5-SQ	-	9.5-SQ	-
466.04	Compressor overhaul turbo	2.9-SQ	-	2.9-SQ	-
467.00	Measuring & regulating equipment	35-R0.5	-35	35-R0.5	-30
467.01	Measuring & regulating electronic	25-R1.5	-20	25-R1.5	-20
467.02	Measuring computer equipment	15-R4	-	15-R4	-
467.03	Meters	22-R4	-	22-R4	-
468.00	Communications structures & equipment	35-R2	-	35-R2	-
469.00	Other transmission equipment	15-R1.5	-10	15-R1.5	-10

		Proceeding 22011 2017-2018 proposed by ATCO Pipelines		Proceeding 22011 2017-2018 approved	
Account		Life-curve	Net salvage	Life-curve	Net salvage
	General plant				
482.00	Structures	35-R2.5	-3	35-R2.5	-1
484.00	Transportation equipment	7-L2	18	7-L2	15
484.01	Transportation equipment (NGV)	7-L2	-	7-L2	-
484.02	Transportation equipment (ancillary)	8-R3	-	8-R3	-
484.03	Transportation equipment (trailers)	17-R4	8	17-R4	8
485.00	Heavy work equipment	18-R2	12	18-R2	15
488.00	Communication equipment	10-L0	-	10-L0	-
489.11	Field laptops	4-SQ	-	4-SQ	-
496.05	Equipment – SCADA	8-R5	-	8-R5	-
499.05	Software - SCADA	8-R5	-	8-R5	-

Table 46. Summary of proposed and approved 2017-2018 estimated average service lives, Iowa curves and net salvage per cents for ATCO Pipelines' amortized (straight-line fixed rate) plant accounts

		Proceeding 22011 2017-2018 proposed by ATCO Pipelines		Proceeding 22011 2017-2018 approved	
Account		Life-curve	Net salvage	Life-curve	Net salvage
	Amortized assets – straight-line fixed rate				
483.00	Office furniture & equipment	20 SQ	10	20 SQ	10
486.00	Tools & work equipment	25 SQ	10	25 SQ	10
489.00	Stores, shop & garage equipment	30 SQ	10	30 SQ	10
491.00	Laboratory equipment	25 SQ	10	25 SQ	10
499.00	Software 3-year	3 SQ	-	3 SQ	-
499.00	Software 7-year	7 SQ	-	7 SQ	-
499.00	Software 10-year	10 SQ	-	10 SQ	-

10 Compliance with Commission directions

630. ATCO Pipelines provided an update to all AUC directions that are either ongoing or have not been addressed with the AUC in previous decisions in Section 6.1 Attachment of its application.[491]

631. Calgary submitted in argument that it had identified two IT Enhancement projects in ATCO Pipelines' discussion that exceed the $500,000 threshold for which business cases were

[491] Exhibit 22011-X0005, application, Section 6.1 Attachment, PDF pages 176-178.

not provided. Therefore, Calgary was of the opinion that ATCO Pipelines had not followed Commission Direction 5 from Decision 2013-340 for the MMS and PIMS enhancement projects.[492]

632. Calgary also argued that the level of detail provided by ATCO Pipelines in response to Direction 18 from Decision 3577-D01-2016 be maintained to properly examine IT O&M, indirect capital and direct capital costs and any adjustments to IT rates arising from determinations made by the Commission in the ATCO Utilities IT common matters proceeding. Calgary recommended that ATCO Pipelines be required to file IT volumes at the level of detail provided in Section 4.2.5 for all future GRAs.[493]

633. ATCO Pipelines did not submit any specific reply to the submissions from Calgary.

Commission findings

634. With respect to Direction 5 from Decision 2013-340, the Commission is satisfied with the overall level of detail provided by ATCO Pipelines in the application, regarding the MMS and PIMS Enhancement projects. With respect to Direction 18 from Decision 3577-D01-2016, as noted in the Commission findings to Section 6.7 above, the Commission considers this direction to be ongoing.

635. The Commission has reviewed the remaining directions presented in Section 6.1 of the application as well as the attachment to Section 6.1 and is satisfied with ATCO Pipelines' explanation of the status of compliance with these previous directions of the Commission, the identification of any related proceeding wherein ATCO Pipelines complied with past directions and its progress with complying with any ongoing directions.

[492] Exhibit 22011-X0176.01, Calgary argument, PDF page 26.
[493] Exhibit 22011-X0176.01, Calgary argument, PDF page 26.

11 Order

636. It is hereby ordered that:

(1) ATCO Pipelines is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than October 11, 2017.

Dated on August 25, 2017.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Panel Chair

(original signed by)

Bill Lyttle
Commission Member

(original signed by)

Tracee Collins
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
ATCO Pipelines Bennett Jones LLP
Canadian Association of Petroleum Producers (CAPP)
The City of Calgary McLennan Ross Barristers & Solicitors
Consumers' Coalition of Alberta (CCA)
Encana Corporation
NOVA Gas Transmission Ltd. (NGTL)
The Office of the Utilities Consumer Advocate (UCA) Norton Rose Fulbright LLP
Western Export Group Regulatory Law Chambers

Alberta Utilities Commission Commission panel N. Jamieson, Panel Chair B. Lyttle, Commission Member T. Collins, Commission Member Commission staff A. Sabo (Commission counsel) L. Desaulniers (Commission counsel) K. Kellgren (Commission counsel) M. McJannet S. Karim M. Kopp-van Egteren L. Mullen B. Shand B. Yanchula

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. The Commission has reviewed the depth of cover program and ILI program and is satisfied that ATCO Pipelines has adequately explained why the expenditures are required to ensure pipeline integrity, while also providing tables that detail the program. The Commission also notes that interveners did not oppose these capital costs. The Commission approves ATCO Pipelines' forecast capital expenditures for these two programs as filed, but directs ATCO Pipelines in all future applications to clearly explain all removal costs, whether all assets were retired in the ordinary course, and identify the accounts associated with the removal costs. .... Paragraph 51

2. The Commission notes that ATCO Pipelines was amenable to providing sizing information on both the SEC and the Northeast Edmonton Connector at the facilities application stage. The Commission considers this would be of assistance to the Commission and parties, and directs ATCO Pipelines to provide current sizing information on both the South Edmonton Connector and the Northeast Edmonton Connector at the facilities application stage. .... Paragraph 66

3. The Commission notes that the majority of the information with regard to ATCO Pipelines' UPR procurement process was filed confidentiality in the current proceeding. As noted by ATCO Pipelines, there were over 20,000 pages of procurement information filed in the proceeding, with the UCA being the only intervener commenting on the procurement process and noting satisfaction with how ATCO Pipelines presented its tendering material in an organized and transparent manner. Although the Commission recognizes that the UCA expressed concern with general Alberta utility tendering practices, the Commission considers that the level of detail filed in the current proceeding should not necessarily be required in all future proceedings. Accordingly, in the absence of any material change(s) to the UPR program, ATCO Pipelines is directed to provide an executive summary of its procurement practices on a go forward basis that includes:

    - identifying the number of bidders in the process
    - a justification of the winning bidder
    - any changes in tendering process or atypical results arising from its procurement process .... Paragraph 67

4. The Commission approves, in this proceeding, ATCO Pipelines' forecast ECDA and ILI capital expenditures because the inspections are a proactive initiative designed to detect areas of the pipeline susceptible to future defects in transmission pipeline. However, the Commission notes that the CCA argued that capitalization of ECDA and ILI costs should be treated as expense items as the inspections themselves do not extend the life of the pipeline asset nor is capitalization of these costs consistent with industry norms. As such, the Commission directs ATCO Pipelines, in its next GRA:

    - To survey and summarize the practices of other North American regulated pipeline companies to establish if ILI costs are capitalized or expensed.

- Clarify why ECDA costs should be capitalized based on ATCO Pipelines' capitalization policy. .... Paragraph 91

5. Given the level of uncertainty with regards to locations that need to be re-inspected, the Commission supports the need for additional status updates on the Weld Integrity expenditures and further evidence to decide whether a deferral account should be established if it is found to be the responsibility of ratepayers. Before rendering a decision regarding ATCO Pipelines' Weld Integrity Inspections and Replacements capital expenditures, ATCO Pipelines is directed to file the following information in its compliance filing to this decision:

   - Status of any legal proceeding against third-party radiographic inspection companies.
   - Confirm whether ATCO Pipelines' forecast 2016 capital expenditure has been included in ATCO Pipelines' 2017 opening rate base.
   - Explain why these costs should be capitalized and not treated as an O&M expense.
   - Explain why these costs should be the responsibility of ratepayers.
   - Whether the forecast weld integrity inspection should be subject to deferral account treatment. .... Paragraph 106

6. The Commission notes that GIS replacement was considered as early as 2014 and was dismissed as it was the highest cost alternative evaluated. ATCO Pipelines is now requesting approval to replace its existing GIS system with the ESRI (which is addressed in Section 4.2.7.4), the current industry leader. The Commission is concerned with ATCO Pipelines' decision to proceed with Intergraph G/Technology upgrades and data enhancements when significant costs had been expended on the Intergraph G/Technology program in the previous four years and when ATCO Pipelines had already identified a complete GIS system replacement as an alternative to address the deficiencies found with the existing GIS system. Furthermore, as ATCO Pipelines did not have an overarching IT strategy; deficiencies appear to be addressed as they arise without consideration for a long-term solution. The Commission finds that the evidence on the record suggests that ATCO Pipelines did not give sufficient consideration to the available alternatives to the GIS projects when the 2015-2016 GRA was being prepared in 2014. The Commission notes that issues were raised by participants throughout the 2015-2016 GRA proceeding with respect to the GIS projects and, by late 2015 ATCO Pipelines itself identified that Intergraph was no longer the preferred GIS vendor, but nonetheless, ATCO Pipelines proceeded to complete the 2015-2016 GIS projects. The Commission cannot find that ATCO Pipelines' decisions in this case were reasonable and therefore cannot approve the 2015-2016 GIS projects for inclusion in opening rate base. ATCO Pipelines is directed to remove the applied-for capital addition amounts for the GIS Data Enhancement, GIS Lifecycle Management and the GIS Third Party Viewer Implementation projects from opening rate base. .... Paragraph 156

7. Based on the findings above, where certain IT projects are denied, the Commission directs that ATCO Pipelines make any necessary adjustments to Wipro IT volumes in the compliance filing. .... Paragraph 159

8. The Commission finds that the 2015-2016 IT capital projects focus on improving ATCO Pipelines' management of its assets, as opposed to meeting certain requirements to

comply with ISO 55001. In Decision 3577-D01-2016 the Commission found that, while ATCO Pipelines defined the GIS, PIMS and MMS Enhancement projects as discrete projects, the Commission considered that the projects were all related to improving ATCO Pipelines' asset management and that the cumulative costs of the projects may exceed the minimum business case requirement of $500,000. The Commission continues to consider that projects which are directly interrelated should be presented in a single comprehensive business case and directs ATCO Pipelines to identify projects that may be integrated in future GRAs, especially as it pertains to asset management. .... Paragraph 166

9. Although, the 2017-2018 MMS Enhancement project may assist ATCO Pipelines in planning and coordinating maintenance activities in a centralized repository, the Commission agrees with Calgary that ATCO Pipelines has failed to quantify the benefits of the project and note that the project exceeds the status quo costs by $0.65 million. ATCO Pipelines is therefore directed to remove the proposed MMS Enhancements project from its 2017-2018 IT capital expenditures and revenue requirement forecasts. .... Paragraph 171

10. Accordingly, the Commission approves a 0.5 per cent out-of-scope salary escalation factor for 2017 and a 1.0 per cent out-of-scope salary escalation factor for 2018. The Commission considers that the 0.5 per cent for 2017 and the 1.0 per cent for 2018 should be inclusive of all salary increases and promotional increases that ATCO Pipelines collects in its revenue requirements for the test period. The Commission directs ATCO Pipelines to reflect these findings in its compliance filing to this decision. .... Paragraph 243

11. The Commission directs ATCO Pipelines to incorporate the findings of Decision 21831-D01-2017 for all pension costs and COLA into its compliance filing to this decision. Based on Decision 21831-D01-2017, the Commission does not approve the placeholders for a pension COLA adjustment from 50 per cent to 100 per cent. .... Paragraph 257

12. However, the Commission continues to consider that, given the difficulty in forecasting vacancies due to uncertainties in ATCO Pipelines' operating environment, using a five-year average of historical rates is a reasonable methodology to estimate vacancy rates, and directs ATCO Pipelines to use this methodology in its next GRA, or to provide an explanation of why this methodology is not appropriate for the test period. .... Paragraph 284

13. The Commission has reviewed ATCO Pipelines' forecast vacancy rate and the calculations provided by ATCO Pipelines to determine vacancy rate and notes that the calculation is based on estimated 2016 actual data. In past decisions, the Commission has indicated a preference for the best available information when rendering a decision. The Commission considers that, in this case, an update to the 2016 actual vacancy rate used to determine the 2017 and 2018 vacancy rate is appropriate. The Commission therefore directs ATCO Pipelines in its compliance filing to recalculate the 2017 and 2018 forecast O&M vacancy rate, using the methodology described in the application and provided in response to AP-UCA-2016NOV025(d), using the final actual 2016 vacancy rate as at December 31, 2016. .... Paragraph 285

14. The Commission considers that the updated CPI for 2017 and 2018, provided in response to the second round of IRs, is a more reasonable forecast for O&M supplies inflation. Accordingly, the Commission directs ATCO Pipelines, in the compliance filing, to

update the O&M supplies forecasts to use an inflation factor of 1.9 per cent for 2017 and 2.3 per cent for 2018. Any specifically identified cost differences, namely the regulatory compliance initiative, quality control review and decreased costs due to the pension valuation, are approved, subject to any adjustments required as a result of the adjustment to supplies inflation. .... Paragraph 293

15. The Commission has reviewed the forecast A&G costs and finds that the forecasts are reasonable given the information provided in Table 29 above and approves the forecast A&G costs, subject to the findings above regarding supplies inflation. Consistent with the direction on supplies inflation in Section 6.4, the Commission directs ATCO Pipelines to revise its forecast A&G costs to use the approved 1.9 per cent for 2017 and 2.3 per cent for 2018, for supplies inflation, where applicable. The Commission further directs ATCO Pipelines to provide a revised Table 29 in its compliance filing to this decision. .... Paragraph 307

16. The Commission is cognizant that the debt rate is subject to deferral treatment, but is interested in exploring different methodologies to forecast debt cost rates in ATCO Pipelines' next GRA. The Commission directs ATCO Pipelines to explore and discuss different possible methods to forecast its debt rates in its next GRA, including methodologies that use a forward curve to set the debt cost rate, instead of using Consensus Forecasts. The Commission also anticipates that other parties to that proceeding, such as the CCA, will also have an opportunity to file evidence on this issue. .... Paragraph 338

17. As stated in Section 6.4 above, the Commission has a preference for the best available information when rendering a decision. In response to an IR, ATCO Pipelines provided an update to the continuity schedule for the RID, however, it argued that the schedule should not be used because it is not representative of 2016 actual full year data. The Commission therefore directs ATCO Pipelines to update the RID forecasts, for the purposes of determining revenue requirement, to use the actual full year data for 2016, and to provide an updated continuity schedule (Table 4.2.7 in the application), in the compliance filing. .... Paragraph 354

18. The Commission notes that Decision 21831-D01-2017 on ATCO Pipelines' 2014-2018 pension application was issued on July 12, 2017. The Commission directs ATCO Pipelines to update its placeholder schedule for pension COLA costs in its compliance filing. .... Paragraph 365

19. The Commission directs ATCO Pipelines to revert to the use of the BG procedure for the purposes of determining its amortization of reserve differences calculation and amortization of reserve differences true-up amounts in its compliance filing to this decision. .... Paragraph 388

20. For purposes of clarity, the Commission directs ATCO Pipelines to provide a supplementary continuity schedule of the accumulated depreciation balances for Account 496.05 – general plant – equipment – SCADA in its compliance filing to this decision. The schedule should address the concerns of the UCA by providing any missing information that will reconcile their assumptions of a missing transaction with the information provided by ATCO Pipelines and noted in Table 44 above. If the UCA's concerns remain upon being provided with this additional information by ATCO Pipelines, it may pursue this issue in the compliance filing proceeding. ..... Paragraph 395

21. The Commission has examined the evidence with respect to the treatment of contributions for depreciation purposes and is not convinced that there is reason for concern. However, in reviewing the capitalization policy referenced by ATCO Pipelines, the Commission can find no reference to any discussion of asset relocations. For this reason, the Commission considers it would be beneficial for ATCO Pipelines to establish a written policy with respect to its treatment of contributions from both an accounting and depreciation study perspective. The Commission directs ATCO Pipelines to submit this contribution policy at the time of its next general rate application. The contribution policy should encompass the three contribution scenarios described by ATCO Pipelines in its rebuttal evidence and any other scenarios that require separate or distinct accounting treatment. .... Paragraph 400

22. The Commission finds merit in the CCA's concern and related recommendation and therefore directs ATCO Pipelines to provide the requested cost of removal information (as being what has been collected and what has been expended, each on a total cumulative basis) at the time of its next GRA. The cost of removal information will be required for a single account, Account 465.00 – transmission plant – mains. After examining the data, the Commission will make a subsequent determination with respect to ATCO Pipelines' remaining plant accounts and whether similar cost of removal information for those accounts will be required. .... Paragraph 407

23. The Commission directs ATCO Pipelines to provide as part of all future rate applications where either a depreciation study or technical update to a depreciation study has been submitted, detailed depreciation expense calculations on the basis of both approved methodologies and depreciation parameters (and corresponding rates) and proposed methodologies and depreciation parameters (and corresponding rates). ...... Paragraph 411

24. The Commission denies the proposed 20-R3 life-curve combination for Account 454.00 – underground storage – well equipment, and directs ATCO Pipelines to maintain the existing 24-R3 life-curve for this account in its compliance filing to this decision. .... Paragraph 424

25. Accordingly, the Commission directs ATCO Pipelines to maintain the existing 82-R5 life-curve for Account 461.00 – transmission plant – land rights in its compliance filing to this decision. .... Paragraph 444

26. The Commission is prepared to accept the proposed 50-R1.5 life-curve combination at this time on the basis there is a satisfactory visual fit to ATCO Pipelines' historical data and is within the range of average service life statistics provided by Mr. Robinson. However, the Commission directs ATCO Pipelines in its next depreciation study to explore whether or not a further lengthening of the average service life would not be reasonable for Account 464.00 – transmission plant – other structures and improvements. .... Paragraph 456

27. The Commission finds that an increase in average service life is warranted and directs ATCO Pipelines to incorporate a 67-R2.5 life-curve for Account 465.00 – transmission plant – mains in its compliance filing to this decision. .... Paragraph 464

28. However, the Commission directs ATCO Pipelines in its next depreciation study to explore whether or not a lengthening of average service life would be reasonable for Account 467.00 – transmission plant – measuring and regulating equipment. .... Paragraph 480

29. ATCO Pipelines has not convinced the Commission of the applicability of a decommissioning study for determining net salvage per cents for its underground storage assets. The Commission is not prepared to approve the proposed changes to net salvage per cents for underground storage assets premised on the use of the decommissioning study at this time. ATCO Pipelines is directed, in its next depreciation study, to revert back to a traditional net salvage study for the purposes of examining net salvage for its underground storage assets. .... Paragraph 525

30. The Commission does not consider that the cost of removal incurred in the year 2013 is significant enough to influence a change in the approved net salvage per cent for this account at this time. For this reason, the Commission denies ATCO Pipelines request to implement a net salvage of -691.0 per cent for Account 452.00 – underground storage plant – structures and improvements. ATCO Pipelines is directed to incorporate the approved net salvage of -5.0 per cent for Account 452.00 – underground storage plant – structures and improvements in its compliance filing to this decision. .... Paragraph 532

31. ATCO Pipelines is directed to incorporate the approved net salvage of -20.0 per cent for Account 453.00 – underground storage plant – wells in its compliance filing to this decision. .... Paragraph 537

32. The Commission approves a net salvage per cent of -9.0 for Account 454.00 – underground storage plant – well equipment on the basis of the overall results of the traditional net salvage study. ATCO Pipelines is directed to incorporate a net salvage of -9.0 per cent for Account 454.00 – underground storage plant – well equipment in its compliance filing to this decision. .... Paragraph 542

33. The Commission approves the continuation of a net salvage per cent of -5.0 for Account 455.00 – underground storage plant – well equipment based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to maintain its approved net salvage of -5.0 per cent for Account 455.00 – underground storage plant –field lines in its compliance filing to this decision. .... Paragraph 547

34. The Commission denies the use of a net salvage per cent of -5.0 for Account 456.00 – underground storage plant – compressor equipment based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to maintain its currently approved net salvage of 0.0 per cent for Account 456.00 – underground storage plant – compressor equipment in its compliance filing to this decision. .... Paragraph 552

35. The Commission approves a net salvage per cent of -2.0 for Account 456.00 – underground storage plant – well equipment based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to incorporate a net salvage of -2.0 per cent for Account 456.00 – underground storage plant – measuring and regulating equipment in its compliance filing to this decision. .... Paragraph 557

36. Based on the overall results of the traditional net salvage study, the Commission approves a net salvage per cent of -10.0 for Account 461.00 – transmission plant – land rights as filed. However, the Commission is interested in the types of legal expenses and proceeds Mr. Robinson has referred to as being incurred for land rights, particularly in light of Account 451.00 – underground storage plant – land rights not appearing to have similar types of removal costs. The Commission directs ATCO Pipelines in its next depreciation study to discuss the nature of the proceeds and removal costs being charged to this account and the continued necessity for any negative net salvage per cent. .... Paragraph 562

37. ATCO Pipelines is directed to incorporate a net salvage of -20.0 per cent in its compliance filing to this decision for Account 463.00 – transmission plant – measuring and regulating. .... Paragraph 568

38. ATCO Pipelines is directed to incorporate a net salvage of -10.0 per cent in its compliance filing to this decision for Account 464.00 – transmission plant – other structures and improvements. .... Paragraph 574

39. The Commission denies the use of a net salvage per cent of -80.0 for Account 465.00 – transmission plant – mains and ATCO Pipelines is directed to maintain its currently approved net salvage of -50.0 per cent in its compliance filing to this decision. .... Paragraph 588

40. The Commission denies the use of a net salvage per cent of -20.0 for Account 466.00 – transmission plant – compressor equipment and ATCO Pipelines is directed to maintain the currently approved net salvage of -5.0 per cent in its compliance filing to this decision. .... Paragraph 594

41. ATCO Pipelines is directed to incorporate a net salvage of -5.0 per cent in its compliance filing to this decision for Account 466.01 – transmission plant – compressor equipment (electronic). .... Paragraph 600

42. ATCO Pipelines is directed to incorporate a net salvage of -30.0 per cent in its compliance filing to this decision for Account 467.00 – transmission plant – measuring and regulating equipment. .... Paragraph 606

43. The Commission agrees with ATCO Pipelines that a modification to the net salvage of -5.0 per cent for Account 482.00 – general plant – structures is required. The Commission approves a net salvage of -1.0 per cent for Account 482.00 – general plant – structures based on the overall results of the traditional net salvage study. ATCO Pipelines is directed to incorporate a -1.0 per cent in its compliance filing to this decision for Account 482.00 – general plant – structures. .... Paragraph 611

44. The Commission directs ATCO Pipelines to maintain the approved net salvage of 15.0 per cent for each of Account 484 – general plant – transportation equipment and Account 485.00 – general plant – heavy work equipment in its compliance filing to this decision. .... Paragraph 622

45. ATCO Pipelines is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than October 11, 2017. .... Paragraph 636(1)