



**ATCO Gas and Pipelines Ltd.**

**2016 Performance-Based Regulation Capital Tracker True-Up**

**February 13, 2018**

**Alberta Utilities Commission**

Decision 22819-D01-2018

ATCO Gas and Pipelines Ltd.

2016 Performance-Based Regulation Capital Tracker True-Up  
Proceeding 22819

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## **1 Decision summary**

1. This decision provides the Alberta Utilities Commission's determinations with respect to ATCO Gas and Pipelines Ltd.'s (ATCO Gas) 2016 capital tracker true-up application. For the reasons set out in this decision, the Commission has determined that:

- ATCO Gas's proposed grouping of capital projects or programs is reasonable, for the purposes of this decision.
- The need for the capital tracker projects or programs included in the 2016 true-up is confirmed and the scope, level, timing and actual costs of each of the projects or programs included in the 2016 true-up were prudent. As a result, each of these programs or projects meets the project assessment requirement under Criterion 1.
- The capital tracker projects or programs included in the 2016 true-up satisfy the accounting test requirement of Criterion 1. Therefore, all of ATCO Gas's programs or projects included in the 2016 true-up satisfy the requirements of Criterion 1 for capital tracker treatment.
- The previously-approved capital tracker projects or programs included in the 2016 true-up continue to meet the requirements of Criterion 2. The Alberta Floods program also meets the requirements of Criterion 2 for 2016. The Alberta Floods program meets all three capital tracker criteria based on the actual expenditures in 2016.
- All of ATCO Gas's capital tracker projects or programs included in the 2016 true-up satisfy the two-tiered materiality test requirement of Criterion 3.

2. Based on the determinations in this decision, the Commission approves the 2016 actual 2016 K factors of \$24.9 million in the ATCO Gas north service territory and \$17.1 million in the ATCO Gas south service territory and the associated K factor true-up refund of \$4.166 million and \$1.245 million for the north and south service territories, respectively. The portion of the 2016 K factor amount associated with the Alberta Floods program of \$0.609 million is also approved for the south territory.

## **2 Introduction and procedural background**

3. On July 21, 2017, ATCO Gas filed an application with the Commission requesting approval of its 2016 capital tracker true-up application and associated K factor adjustment to be reflected in its rates under performance-based regulation (PBR).

4. On July 25, 2017, the Commission issued a notice of application that required interested parties to submit a statement of intent to participate (SIP) by August 4, 2017. The Commission

received SIPs from the Office of the Utilities Consumer Advocate (UCA) and The City of Calgary (Calgary). The UCA requested an opportunity to test ATCO Gas's application with a round of information requests (IRs) before commenting on the need for further process. Calgary expected to only monitor the proceeding. The Commission received a late SIP from the Consumer's Coalition of Alberta (CCA) on August 14, 2017.

5. On August 30, 2017, ATCO Gas, a division of ATCO Gas and Pipelines Ltd., filed a motion (the confidentiality motion) in this proceeding pursuant to Section 28 of Rule 001: *Rules of Practice*. ATCO Gas requested that confidential treatment be applied to the information requested by the Commission and the UCA in three IR requests relating to the proposals for ATCO Gas's Urban Pipelines Replacement (UPR) and Steel Mains Replacement (SMR) projects included in the application. After receiving comments from parties, the Commission granted confidential treatment to the information relating to the three IR requests.

6. The main process steps, as amended by the Commission throughout the course of the proceeding, are set out in the table below:

| <b>Process step</b>                         | <b>Due date</b>   |
|---|-------------------|
| IRs to ATCO Gas                             | August 24, 2017   |
| IR responses from ATCO Gas                  | October 2, 2017   |
| Submissions on the need for further process | October 5, 2017   |
| Argument                                    | November 1, 2017  |
| Reply argument                              | November 15, 2017 |

7. The Commission considers the record for this proceeding to have closed on November 15, 2017.

8. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, as well as relevant portions of the records considered by the Commission in prior ATCO Gas capital tracker proceedings, as referenced throughout this decision. Accordingly, references in this decision to specific parts of the records are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the records with respect to a particular matter.

### **3 Background**

9. On September 12, 2012, the Commission issued Decision 2012-237,<sup>1</sup> which set out the PBR framework and approved PBR plans for the distribution utility services of certain Alberta electric and gas companies (collectively, the distribution utilities), including ATCO Gas. Within these PBR plans, the Commission approved a rate adjustment mechanism to fund certain capital-related costs. This supplemental funding mechanism was referred to in Decision 2012-237 as a

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

“capital tracker” with the revenue requirement associated with approved amounts to be collected from ratepayers by way of a “K factor” adjustment to the annual PBR rate-setting formula.

10. At paragraph 592 of Decision 2012-237, the Commission set out the criteria that a capital project or program would have to satisfy in order to receive capital tracker treatment approval. The implementation and application of these criteria, and the K factor calculation methodology were considered in a 2013 capital trackers proceeding, leading to Decision 2013-435.<sup>2</sup> The implementation methodology established in Decision 2013-435 is, and has been, used to evaluate the capital tracker projects or programs proposed by the distribution utilities throughout the five-year PBR term, from 2013 to 2017.

11. Subsequent to the release of Decision 2013-435, each distribution utility has filed separate capital tracker applications on an annual basis for its specific capital trackers. ATCO Gas’s last such application was filed in 2016 and led to the release of Decision 21843-D01-2017,<sup>3</sup> which addressed ATCO Gas’s 2015 capital tracker true-up and 2017 SMR forecast. A summary of ATCO Gas’s prior capital tracker-related decisions and resulting approved K factor amounts is attached as [Appendix 3](#) to this decision.

#### **4 Commission process for reviewing the 2016 capital tracker true-up application**

12. The Commission’s process for reviewing the 2016 capital tracker true-up application followed the steps set out in Section 4 of Decision 21843-D01-2017, where the Commission indicated that it would generally undertake assessments with respect to all three criteria for capital tracker treatment, for all capital projects or programs that the Commission has not considered in prior capital tracker decisions. The three criteria that each project or program must satisfy to receive capital tracker treatment are:

- Criterion 1 – The project must be outside the normal course of the company’s ongoing operations.
- Criterion 2 – Ordinarily the project must be for replacement of existing capital assets or undertaking the project must be required by an external party.
- Criterion 3 – The project must have a material effect on the company’s finances.

13. For projects or programs for which the Commission has previously confirmed the need under the project assessment component of Criterion 1 in prior capital tracker decisions, the Commission did not undertake a reassessment of need under Criterion 1 in the absence of evidence that the project or program was no longer required. However, the Commission did assess the scope, level and timing of each project or program for prudence, and whether the actual costs of the project or program were prudently incurred, as required by the second part of the project assessment under Criterion 1.

14. The Commission also considered that for the purposes of the true-up of the 2016 capital tracker programs or projects for which the Commission undertook and approved the assessment

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<sup>2</sup> Decision 2013-435: Distribution Performance-Based Regulation 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

<sup>3</sup> Decision 21843-D01-2017: ATCO Gas and Pipelines Ltd., 2015 Capital Tracker True-up and 2017 Steel Mains Replacement Forecast Update, Proceeding 21843, June 12, 2017.

against the Criterion 2 requirements in prior capital tracker decisions, there was no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program had changed. An assessment of the 2016 capital tracker projects and programs with respect to the accounting test under Criterion 1 and materiality test under Criterion 3 was also conducted.

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

- Section 5 of this decision provides an overview of the programs or projects for which ATCO Gas has sought capital tracker true-up for 2016 on an actual basis.
- The evaluation of ATCO Gas's proposed capital project groupings is set out in Section 6.
- The assessment of ATCO Gas programs or projects proposed for capital tracker treatment under Criterion 1 is set out in sections 7 and 8 dealing with the project assessment and the accounting test, respectively.
- The Commission's assessment under Criterion 2 is undertaken in Section 9 and the assessment under Criterion 3 is set out in Section 10.
- Section 11 deals with ATCO Gas's compliance with Commission directions.
- Section 12 deals with the K factor calculation methodology and the K factor true-up for 2016.

## 5 Summary of projects included in the application

16. The projects or programs included in the 2016 capital tracker true-up and associated variance between the approved forecast and actual capital expenditures, resulted in a proposed K factor true-up for 2016 of negative \$4.2 million in the north service territory and negative \$1.2 million in the south service territory. The K factor amounts and the individual project or program variances are set out in Table 1 below:

**Table 1. K factor associated with programs and projects included in the 2016 capital tracker true-up**

|    | Program/project name                       | 2016 approved forecast |       | 2016 actual |       | Variance |       |
|----|--|------------------------|-------|-------------|-------|----------|-------|
|    |  | North                  | South | North       | South | North    | South |
|    |  | (\$000)                |       |             |       |          |       |
| 1  | Steel Mains Replacement                    | 9,745                  | 2,053 | 9,360       | 1,802 | (386)    | (250) |
| 2  | Plastic Mains Replacement                  | 6,219                  | 8,306 | 5,867       | 7,524 | (352)    | (782) |
| 3  | Transmission Driven                        | 5,379                  | 3,752 | 4,226       | 4,429 | (1,153)  | 676   |
| 4  | Meter Relocation and Replacement           | 1,424                  | 315   | 1,075       | 205   | (349)    | (110) |
| 5  | Line Heater Reliability                    | 921                    | 277   | 768         | 245   | (153)    | (32)  |
| 6  | Cathodic Protection                        | 305                    | 202   | 215         | 131   | (90)     | (71)  |
| 7  | Regulating Metering Station Improvements   | 299                    | -     | 244         | -     | (55)     | -     |
| 8  | New Urban Service Lines                    | -                      | 721   | -           | -     | -        | (721) |
| 9  | Service Line Replacements and Improvements | 1,335                  | 2,158 | 1,239       | 1,758 | (96)     | (400) |
| 10 | New Regulating Meter Stations              | 603                    | 221   | 404         | 270   | (199)    | 49    |
| 11 | Urban Main Extensions                      | 374                    | -     | -           | -     | (374)    | -     |



|    | Program/project name                    | 2016 approved forecast |               | 2016 actual   |               | Variance       |                |
|----|---|------------------------|---------------|---------------|---------------|----------------|----------------|
|    |   | North                  | South         | North         | South         | North          | South          |
|    |   | (\$000)                |               |               |               |                |                |
| 12 | Urban Main Improvements                 | 436                    | 190           | 254           | -             | (182)          | (190)          |
| 13 | Urban Main Relocations                  | 1,674                  | 150           | 1,218         | 1258          | (456)          | (24)           |
| 14 | Rural Main Extensions and Service Lines | 322                    | -             | -             | -             | (322)          | -              |
| 15 | Alberta Floods                          | -                      | -             | -             | 609           | -              | 609            |
|    | <b>Total K factors</b>                  | <b>29,036</b>          | <b>18,344</b> | <b>24,870</b> | <b>17,098</b> | <b>(4,166)</b> | <b>(1,245)</b> |

Source: Exhibit 22819-X0001.01, application update, paragraph 9.

17. As shown in the table, the Commission approved 14 projects or programs for capital tracker treatment in Decision 20604-D01-2016,<sup>4</sup> on a forecast basis for 2016, with subsequent updated forecasts in the compliance filing resulting in Decision 21606-D01-2016.<sup>5</sup>

18. In the application, ATCO Gas requested the true-up of 11 and 10 program or projects for the north and south service territories, respectively. The four projects approved on a forecast basis in Decision 21606-D01-2016, New Urban Service Lines-South, Urban Main Extensions-North, Rural Main Extensions and Service Lines-North, and Urban Main Improvements-South, did not satisfy the materiality Criterion 3 on an actual expenditures basis in 2016<sup>6</sup> and, as such, were not included in the 2016 K factor true-up. In the application, ATCO Gas confirmed that these programs no longer satisfied the materiality threshold in 2016 on an actual basis. Therefore, the forecast K factor revenue of approximately \$1,607 million collected for these programs in 2016 will be refunded to customers.<sup>7</sup>

19. Similar to its 2015 capital tracker true-up application, ATCO Gas requested capital tracker treatment for the Alberta Floods Program on an actual basis for 2016. This program was not approved on a forecast basis for 2016. However, it was approved for 2015 on an actual basis in Decision 21843-D01-2016. ATCO Gas calculated the 2016 K factor associated with this program in the amount of \$0.609 million for its south service territory.

20. Table 2 below shows the individual projects or programs included in the 2016 K factor true-up and the associated 2016 actual capital expenditures for ATCO Gas's north service territory. The actual expenditures are compared to the 2016 forecast capital additions approved in Decision 20604-D01-2016, or where applicable, the updated forecast amounts approved in the related compliance filing Decision 21606-D01-2016.

<sup>4</sup> Decision 20604-D01-2016, paragraph 457.

<sup>5</sup> Decision 21606-D01-2016, paragraph 86.

<sup>6</sup> Exhibit 22819-X0001.01, application update, paragraph 56.

<sup>7</sup> Exhibit 22819-X0001.01, application update, section 4.1.

**Table 2. ATCO Gas north capital tracker capital expenditures**

| North                                      | Capital expenditures   |             |               |
|--|------------------------|-------------|---------------|
| Program or project name                    | 2016 approved forecast | 2016 actual | Variance      |
|  | (\$ million)           |             |               |
| Steel Mains Replacement                    | 28.0                   | 23.9        | (4.1)         |
| Plastic Mains Replacement                  | 21.8                   | 19.5        | (2.3)         |
| Transmission Driven                        | 35.5                   | 24.0        | (11.5)        |
| Meter Relocation and Replacement           | 12.5                   | 8.0         | (4.5)         |
| Line Heater Reliability                    | 3.6                    | 2.7         | (0.9)         |
| Cathodic Protection                        | 1.5                    | 0.7         | (0.8)         |
| Regulating Metering Station Improvements   | 1.4                    | 3.4         | 2.0           |
| Service Line Replacements and Improvements | 2.7                    | 2.3         | (0.4)         |
| New Regulating Meter Stations              | 2.9                    | 1.6         | (1.3)         |
| Urban Main Improvements                    | 3.9                    | 3.7         | (0.2)         |
| Urban Main Relocations                     | 7.9                    | 4.9         | (3.0)         |
| <b>Total</b>                               | <b>121.7</b>           | <b>94.8</b> | <b>(26.9)</b> |

Note: Individual project or program capital addition values may not match values in the text below due to rounding.  
Source: Exhibit 22819-X0001.01, application update, paragraph 12, Table 3.

21. Table 3 below shows the individual projects or programs included in the 2016 K factor true-up and the associated 2016 approved forecast and actual capital expenditures for ATCO Gas's south service territory.

**Table 3. ATCO Gas south capital tracker capital expenditures**

| South                                      | Capital expenditures   |              |             |
|--|------------------------|--------------|-------------|
| Program or project name                    | 2016 approved forecast | 2016 actual  | Variance    |
|  | (\$ million)           |              |             |
| Steel Mains Replacement                    | 10.8                   | 11.4         | 0.6         |
| Plastic Mains Replacement                  | 27.1                   | 23.0         | (4.1)       |
| Transmission Driven                        | 36.1                   | 55.8         | 19.8        |
| Meter Relocation and Replacement           | 10.9                   | 7.3          | (3.6)       |
| Line Heater Reliability                    | 5.0                    | 2.9          | (2.1)       |
| Cathodic Protection                        | 1.7                    | 1.8          | 0.1         |
| Service Line Replacements and Improvements | 4.0                    | 3.3          | (0.7)       |
| New Regulating Meter Stations              | 1.6                    | 1.4          | (0.2)       |
| Urban Main Relocations                     | 2.2                    | 4.6          | 2.3         |
| Alberta Floods                             | 0                      | 0            | 0           |
| <b>Total</b>                               | <b>99.5</b>            | <b>111.7</b> | <b>12.2</b> |

Source: Exhibit 22819-X0001.01, application update, paragraph 12, Table 3.

22. In the remainder of this decision, the Commission considers reasonableness of the actual expenditures and their inclusion in the 2016 capital tracker true-up.

## 6 Grouping of projects for capital tracker purposes

23. In Decision 2013-435, the Commission determined that the accounting test and the first tier of the materiality test would be applied to the approved groupings (i.e., either at a project or at a program level). When necessary, however, the Commission would consider the individual component projects comprising the approved groupings in order to assess the need for the capital expenditures and the reasonableness of the forecast costs. The second tier of the materiality test is applied at the level of all capital tracker projects, in the aggregate.<sup>8</sup> The Commission also determined that the reasonableness of the grouping of capital projects would be assessed on a case-by-case basis for each individual company.<sup>9</sup>

24. In this application, ATCO Gas used the same approach to grouping that it had used in its prior capital tracker applications for all previously approved capital tracker programs. This grouping of capital tracker projects was approved in Decision 3267-D01-2015.<sup>10</sup> ATCO Gas also included, as directed at paragraph 50 and Appendix 3 of Decision 3558-D01-2015,<sup>11</sup> a description of its 2016 non-capital tracker projects and programs,<sup>12</sup> and the actual capital additions for all programs. The application included supporting calculations and a breakdown of the amount of depreciation, overhead and income tax allocated to each capital tracker program and non-capital tracker program reconciled to the total amount of depreciation, overhead and income tax for all projects and programs,<sup>13</sup> to allow for a better understanding of the proposed groupings of capital projects and programs for which ATCO Gas was seeking capital tracker treatment.

### Commission findings

25. The Commission did not re-evaluate the groupings of the projects or programs included in the 2016 true-up, because the groupings are the same as those approved in previous decisions dealing with ATCO Gas's capital tracker applications, most recently in Decision 20604-D01-2016. The grouping for the Alberta Floods Program as a separate program was approved in Decision 21843-D01-2016. These groupings are approved as filed.

26. The Commission finds that ATCO Gas has complied with the directions at paragraph 50 and Appendix 3 of Decision 3558-D01-2015 and provided descriptions of the nature, scope and timing of its non-capital tracker projects or programs.

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

27. As discussed in Section 4 of this decision, each of ATCO Gas's programs or projects included in the 2016 true-up was evaluated against the second part of the project assessment

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<sup>8</sup> Decision 2013-435, paragraph 407.

<sup>9</sup> Decision 2013-435, paragraph 406.

<sup>10</sup> Decision 3267-D01-2015, paragraphs 107-108.

<sup>11</sup> Decision 3558-D01-2015: Distribution Performance-Based Regulation Commission-Initiated Proceeding to Consider Modifications to the Minimum Filing Requirements for Capital Tracker Applications, Proceeding 3558, Application 1611054-1, April 8, 2015.

<sup>12</sup> Exhibit 22819-X0008, application, Appendix C.

<sup>13</sup> Exhibit 22819-X0002, application, Appendix A.

requirements of Criterion 1. This component of Criterion 1 considers whether the actual scope, level, timing and costs of the project are prudent.

28. The Commission evaluated the ATCO Gas business cases, engineering studies, cost-related information, and related evidence and argument against each of the project assessment minimum filing requirements. In this decision, the Commission comments only on those aspects of the minimum filing requirements that it considers were not sufficiently addressed by ATCO Gas's evidence or were otherwise raised as an issue in the proceeding. In future capital tracker applications, ATCO Gas should continue to provide similar information with respect to each of the minimum filing requirements, including business cases, engineering studies and cost related information, including costs by cost category, unit costs and historical cost comparators, in sufficient detail to allow an evaluation of the reasonableness of its forecasts and the prudence of its incurred costs.

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

## 7.1 Common issues by project or program

### 7.1.1 Allocated indirect costs (overhead)

30. Allocated indirect costs include overhead costs related to contractor charges, information technology support, staff expenses, material, and equipment. ATCO Gas provided the following table, setting out its indirect costs for 2016 actual expenditures and 2016 forecast costs allocated to capital program expenditures:

**Table 4. Allocated indirect costs (overhead) for 2016**

|   | 2016<br>approved forecast<br>Proceeding 20604 | 2016 actual    | Approved vs.<br>actual variance | Approved vs.<br>actual variance |
|---|---|----------------|---------------------------------|---------------------------------|
|   |   |                |                                 |                                 |
|   |   | (\$000)        |                                 | %                               |
| Contractor charges  | 3,034   | 3,089          | 55                              | 0.0                             |
| IT support  | 3,830   | 3,388          | (442)                           | (11.5)                          |
| Staff expenses  | 1,732   | 1,315          | (417)                           | (24.1)                          |
| Materials   | 1,447   | 1,125          | (322)                           | (22.2)                          |
| Equipment   | 1,026   | 1,235          | 209                             | (0.2)                           |
| <b>TOTAL</b>  | <b>11,069</b>                                 | <b>10,153</b>  | <b>(916)</b>                    | <b>(8.28)</b>                   |
| 2012 approved (indexed by I-X)                                      | (11,285)                                      | (11,285)       |                                 |                                 |
| <b>Higher/lower than I-X</b>  | <b>(216)</b>                                  | <b>(1,132)</b> |                                 |                                 |
| Total capital expenditures  | 375,167                                       | 341,064        |                                 |                                 |
| Allocated indirect costs as a percentage<br>of capital expenditures | 3.0%  | 3.0%           |                                 |                                 |

Source: Exhibit 22819-X0001.01, application update, Table 4.

31. ATCO Gas commented that its allocated indirect costs remained relatively stable across the approved forecast, updated forecast and actual costs for 2016. ATCO Gas stated that it has followed the methodology previously approved in Decision 2011-450.<sup>14</sup> ATCO Gas further stated it records costs within its capital cost pools that have been incurred for purposes common to a number of programs, and that cannot be identified and charged directly to programs and projects without a considerable amount of administrative effort. To demonstrate the prudence of its actual allocated indirect costs for 2016, ATCO Gas pointed out that these costs are lower than 2012 approved amounts indexed by the applicable number of annual I-X adjustments.

32. ATCO Gas also provided its 2016 allocated indirect costs by program, for each of the north and south service territories. Table 5 shows the 2016 approved forecast and actual amounts for the allocated indirect costs for the north.

**Table 5. ATCO Gas north allocated indirect costs (overhead) by program, 2016**

| North                                      | 2016 approved | 2016 actual |
|--|---------------|-------------|
| Program or project name                    | (\$000)       |             |
| Urban Mains Extensions                     | 417           | 287         |
| Rural Mains Extensions & Services          | 382           | 273         |
| Urban Feeder Mains                         | 139           | 135         |
| New Regulating Meter Stations              | 39            | 48          |
| Urban Main Improvements                    | 109           | 106         |
| Urban Main Relocations                     | 222           | 132         |
| Rural Main Replacements and Relocations    | 73            | 82          |
| Regulating Metering Station Improvements   | 18            | 106         |
| Cathodic Protection                        | 43            | 20          |
| New Urban Service Lines                    | 1,040         | 815         |
| Service Line Replacements and Improvements | 119           | 113         |
| Meters and Instruments                     | 168           | 108         |
| SCADA                                      | 4             | 1           |
| Regulators and Meter Installations         | 222           | 255         |
| Meter Set Improvements                     | 42            | 23          |
| General Land and Structures                | 55            | 21          |
| Transportation Equipment                   | 29            | 29          |
| Tools and Work Equipment                   | 18            | 18          |
| Heavy Work Equipment                       | 10            | 8           |
| Garage, Stores and Shop Equipment          | 3             | 1           |
| Office Furniture and Equipment             | -             | -           |
| Technical Support Equipment                | 10            | -           |
| Emergency Supply                           | -             | 1           |
| Communication Equipment                    | 67            | 22          |
| Information Technology                     | 66            | 60          |
| Steel Mains Replacement                    | 816           | 701         |
| Plastic Mains Replacement                  | 644           | 571         |
| Meter Relocation Replacement Program       | 262           | 196         |

<sup>14</sup> Decision 2011-450: ATCO Gas (a Division of ATCO Gas and Pipelines Ltd.), 2011-2012 General Rate Application Phase I, Proceeding 969, Application 1606822-1, December 5, 2011.

| North                                 | 2016 approved  | 2016 actual  |
|---------------------------------------|----------------|--------------|
| <b>Program or project name</b>        | <b>(\$000)</b> |              |
| Line Heater Reliability Program       | 47             | 85           |
| Transmission Driven                   | 949            | 729          |
| Commercial Below Ground Entry Project | -              | -            |
| AMR                                   | 77             | 56           |
| Wood Buffalo Wildfires                | -              | -            |
| <b>Total</b>                          | <b>6,090</b>   | <b>5,002</b> |

Source: Exhibit 22819-X0001.01, application update, table 5.

33. Table 6 shows the 2016 approved and actual amounts for the allocated indirect costs for the south.

**Table 6. ATCO Gas south allocated indirect costs (overhead) by program, 2016**

| South                                      | 2016 approved  | 2016 actual |
|--|----------------|-------------|
| <b>Program or project name</b>             | <b>(\$000)</b> |             |
| Urban Mains Extensions                     | 280            | 226         |
| Rural Mains Extensions & Services          | 260            | 119         |
| Urban Feeder Mains                         | 67             | 93          |
| New Regulating Meter Stations              | 22             | 51          |
| Urban Main Improvements                    | 102            | 101         |
| Urban Main Relocations                     | 64             | 131         |
| Rural Main Replacements and Relocations    | 61             | 69          |
| Regulating Metering Station Improvements   | 14             | 92          |
| Cathodic Protection                        | 45             | 54          |
| New Urban Service Lines                    | 737            | 637         |
| Service Line Replacements and Improvements | 177            | 185         |
| Meters and Instruments                     | 169            | 122         |
| SCADA                                      | 3              | -           |
| Regulators and Meter Installations         | 193            | 235         |
| Meter Set Improvements                     | 11             | 20          |
| General Land and Structures                | 91             | 46          |
| Transportation Equipment                   | 27             | 22          |
| Tools and Work Equipment                   | 14             | 13          |
| Heavy Work Equipment                       | 5              | 6           |
| Garage, Stores and Shop Equipment          | 2              | 1           |
| Office Furniture and Equipment             | -              | -           |
| Technical Support Equipment                | 1              | -           |
| Emergency Supply                           | 2              | -           |
| Communication Equipment                    | 67             | 26          |
| Information Technology                     | 66             | 60          |
| Steel Mains Replacement                    | 330            | 283         |
| Plastic Mains Replacement                  | 825            | 676         |
| Meter Relocation Replacement Program       | 292            | 127         |
| Line Heater Reliability Program            | 68             | 100         |
| Transmission Driven                        | 906            | 1,610       |

| South                                 | 2016 approved       | 2016 actual         |
|---------------------------------------|---------------------|---------------------|
| <b>Program or project name</b>        | <b>(\$000)</b>      |                     |
| Commercial Below Ground Entry Project | -                   | -                   |
| AMR                                   | 78                  | 46                  |
| 2013 Southern Alberta Floods          | -                   | -                   |
| <b>Total</b>                          | <b><u>4,979</u></b> | <b><u>5,151</u></b> |
| <b>Grand Total</b>                    | <b>11,069</b>       | <b>10,153</b>       |

Source: Exhibit 22819-X0001.01, application update, Table 5.

### Commission findings

34. In Decision 3267-D01-2015, ATCO Gas was directed to provide evidence demonstrating the reasonableness of adjustments for overhead costs in excess of I-X in future capital tracker applications.<sup>15</sup> The Commission previously approved ATCO Gas's methodology for allocating overheads to capital program expenditures in Decision 2011-450<sup>16</sup> and in Decision 20604-D01-2016, wherein it found forecast indirect costs for 2015-2017 to be reasonable.<sup>17</sup>

35. The information produced by ATCO Gas in the application is similar to the allocated overhead costs information filed in Proceedings 3267, 20604 and 21843. The level of information provided a useful basis for assessing the allocation of indirect costs by program. The 2016 actual overhead costs reflect the previously approved methodology for allocating overhead costs to capital program expenditures.

36. ATCO Gas pointed out that the 2016 actual allocated indirect costs are lower than the 2012 approved allocated indirect costs indexed by the applicable number of annual I-X adjustments. Further, the difference between the 2016 approved forecast and actual costs is \$916,000, or about nine per cent below forecast.<sup>18</sup> The Commission has reviewed the information in support of ATCO Gas's 2016 actual overhead costs, including explanations for the variance between the 2016 actual and 2016 approved forecast, and finds that the 2016 actual overhead costs have been adequately accounted for in 2016. For these reasons, the Commission approves the 2016 actual overhead costs as prudently incurred.

#### 7.1.2 Project management policies and procedures

37. At paragraph 75 of Decision 20604-D01-2016, the Commission directed ATCO Gas "to continue providing its formal management policies and procedures and identify any changes from the previous year." To demonstrate compliance with this direction, ATCO Gas confirmed that there were no material changes to its management policies and procedures in 2016.<sup>19</sup> ATCO Gas filed its project delivery process in Appendix E of the application, which was also filed in prior capital tracker applications.<sup>20</sup>

<sup>15</sup> Decision 3267-D01-2015, paragraph 145.

<sup>16</sup> Decision 3267-D01-2015, paragraph 146.

<sup>17</sup> Decision 20604-D01-2016, paragraph 94.

<sup>18</sup>  $(916/10,153)*100$ .

<sup>19</sup> Exhibit 22819-X0001.01, application update, paragraph 23.

<sup>20</sup> Exhibit 22819-X0004, application, Appendix E.

## Commission findings

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

### 7.2 Previously approved capital tracker projects or programs

39. In this section, the Commission considers 2016 actual capital expenditures for ATCO Gas's projects or programs that were approved for capital tracker treatment on an actual or forecast basis in Decision 2013-435, Decision 3267-D01-2015, Decision 20604-D01-2016, and Decision 21843-D01-2017.

#### 7.2.1 Programs or projects for which no objections were raised

40. There were a number of previously-approved capital tracker projects or programs for which no objections with respect to need, scope, level, timing or costs were raised by the parties in this proceeding. Tables 2 and 3 above summarize these projects and show the 2016 forecast capital expenditures approved in Decision 20604-D01-2016, the actual capital expenditures on which the 2016 capital tracker true-up is based and the resulting variances. These programs or projects are discussed in sections 7.2.1.1 to 7.2.1.10, followed by the Commission findings for all of these programs or projects.

##### 7.2.1.1 Plastic Mains Replacement

41. The Plastic Mains Replacement (PMR) Program consists of the replacement of polyvinyl chloride (PVC) and early generation pre-1978 polyethylene (PE) pipe. The PMR Program includes planned replacement projects and emergency replacement projects required throughout the year. This is a 20-year program that commenced in 2011 and is expected to be completed by 2030. The need for this program was previously approved in Decision 2013-435,<sup>21</sup> Decision 3267-D01-2015,<sup>22</sup> and Decision 20604-D10-2016.<sup>23</sup>

42. ATCO Gas's forecast to replace 82 kilometres (km) in the north and 165 km in the south. The actual number of kilometres of mains replaced was 105 km in the north and 137 km in the south. The 2016 approved forecast capital expenditures for this program were \$21.7 million in the north, while the actual 2016 capital expenditures were \$19.5 million, resulting in a variance of \$2.33 million below forecast. The 2016 approved forecast capital expenditures for this program were \$27.1 million in the south, while the actual 2016 capital expenditures were \$23.0 million, resulting in a variance of \$4.08 million below forecast.<sup>24</sup>

43. Consistent with past decisions, ATCO Gas used a regression analysis approach to explain the deviation in the 2016 unit costs. Specifically, ATCO Gas input the actual service densities for the north and south into the approved regression formulas to yield the expected unit costs. For

<sup>21</sup> Decision 2013-435, paragraph 647.

<sup>22</sup> Decision 3267-D01-2015, paragraph 269.

<sup>23</sup> Decision 20604-D10-2016, paragraph 222.

<sup>24</sup> Exhibit 21819-X0001.01, application update, Table 34, paragraph 137.



the north, ATCO Gas input its actual service density of 14.2 into the regression equation, yielding a unit cost per km of \$259,700. The actual unit cost per km for the north was \$183,100. For the south, ATCO Gas input its actual service density of 7.5 into the regression equation yielding a unit cost per km of \$159,000. The actual unit cost per km for the south was \$166,300. ATCO Gas explained that the unit costs were approximately 30 per cent lower than forecast in the north and approximately five per cent higher than forecast in the south.

44. For the north, ATCO Gas allocated resources and scheduled construction to maximize cost efficiencies.<sup>25</sup> ATCO Gas explained that work was completed using a combination of in-house and contract resources and projects were allocated to the lowest cost construction resources. More work was also performed during frost free conditions leading into the construction season in 2016.<sup>26</sup>

45. For the south, ATCO Gas explained that resource constraints and scheduling limitations, such as restricted access to agricultural land, affected productivity. This resulted in more work being performed under frost conditions.<sup>27</sup>

46. For emergency replacements within the PMR Program, ATCO Gas identified a variance of 18 per cent above forecast for the north and 59 per cent above forecast for the south. Since emergency replacements are forecast based on a three-year average, actual costs associated with emergency replacement will typically vary year-to-year as emergency work is addressed when issues arise.<sup>28</sup>

#### **7.2.1.2 Meter Relocation and Replacement Program**

47. The Meter Relocation and Replacement Program (MRRP) is required to address safety concerns associated with pressurized gas lines and meters inside buildings. The program includes the removal and replacement of the meter, regulator and associated piping to building exteriors. The need for this program was approved in Decision 20385-D01-2015.<sup>29</sup>

48. The MRRP began in 2003. This capital tracker program consists of relocating and replacing Tier 2 (T2) and Tier 3 medium risk (T3M) meter sets in 2016. In addition, some low risk meter sets, Tier 3 low risk (T3L) and Tier 4 (T4), would be moved in conjunction with an annual meter recall program at sites that present safety issues for customers or ATCO Gas employees, where meter access problems exist, or at the time ATCO Gas remedies operational issues, e.g., leaks. In 2016, ATCO Gas completed Tier 2, T3M, T3L and T4 moves in a manner consistent with Decision 2011-450 and subsequent decisions, where the timing of certain replacements was subject to Commission directions.<sup>30</sup>

49. The forecast to actual variance for the MRRP in 2016 for the north was \$4.5 million below forecast, which is the difference between the forecast capital expenditures of \$12.5 million and the actual capital expenditures of \$8.0 million. The forecast to actual variance for the MRRP in 2016 for the south was \$3.6 million below forecast, which is the difference between the

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<sup>25</sup> Exhibit 22819-X0001.01, application update, paragraph 141.

<sup>26</sup> Exhibit 22819-X0049, AG-AUC-2017AUG24-003(a).

<sup>27</sup> Exhibit 22819-X0001.01, application update, paragraph 142.

<sup>28</sup> Exhibit 22819-X0049, AG-AUC-2017AUG24-003(e).

<sup>29</sup> Decision 20385-D01-2015: ATCO Gas: 2013 PBR Capital Tracker Refiling and True-up and 2014-2015 PBR Capital Tracker Forecast Compliance Application, Proceeding 20385, August 24, 2015.

<sup>30</sup> Decision 2011-450, paragraphs 160, 163-164.

forecast capital expenditures of \$10.9 million and the actual capital expenditures of \$7.3 million.<sup>31</sup>

50. ATCO Gas explained that the 2016 variance was largely due to lower numbers of Tier 2 and Tier 3 meters being replaced than were forecast. This was due to resources being allocated to other work in order to complete updated risk assessments on remaining inside meter sets.<sup>32</sup>

### **7.2.1.3 Line Heater Reliability**

51. The Line Heater Reliability Program brings non-compliant ATCO Gas line heaters to an Occupational Health and Safety Code compliant level and includes related work at those non-compliant sites to ensure line heater reliability and safe operability. Improvement work for line heaters, where no code issues exist, is conducted under the Regulating and Metering Station Improvements Program. Similarly, line heater upgrade work required due to growth, where no code issues exist, is completed under the New Regulating Stations Meter Stations Program. The need for this program was previously approved in Decision 2013-435<sup>33</sup> Decision 3267-D01-2015,<sup>34</sup> and Decision 20604-D10-2016.<sup>35</sup>

52. The 2016 approved forecast capital expenditures for this program were \$3.6 million in the north, and the actual 2016 capital expenditures were \$2.7 million in the north, resulting in a variance of \$0.9 million below forecast. The 2016 approved forecast capital expenditures for this program were \$5.0 million in the south, and the actual 2016 capital expenditures were \$2.9 million in the north, resulting in a variance of \$2.1 million below forecast.<sup>36</sup>

53. ATCO Gas explained that these variances below forecast were related to difficulties in completing projects because of delays related to land acquisitions. ATCO Gas stated that it was unable to secure enough land to complete 17 of the approved 36 sites in the north and 39 of the approved 52 sites in the south. In an IR response, ATCO Gas explained that it has experienced some challenges in securing land requirements where it does not have any recourse or regulatory process to compel a landowner to transfer the required land to complete the work. However, additional land contract resources were deployed in 2016 in order to assist with the completion of this program. Given that there are remaining sites to be completed under this program, ATCO Gas expects to extend this program to 2021. ATCO Gas further confirmed that service quality was not impacted and no incidents of failures occurred at these sites in the north and south service territories.<sup>37</sup>

### **7.2.1.4 Cathodic Protection**

54. The Cathodic Protection Program consists of maintaining and improving cathodic protection on ATCO Gas's existing steel mains. ATCO Gas maintains cathodic protection through improvement projects, such as the replacement and new installation of dresser bondings,

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<sup>31</sup> Exhibit 22819-X0021.01, application, Table 101.

<sup>32</sup> Exhibit 22819-X0001.01, application update, paragraphs 217-219.

<sup>33</sup> Decision 2013-435, paragraph 671.

<sup>34</sup> Decision 3267-D01-2015, paragraph 630.

<sup>35</sup> Decision 20604-D10-2016, paragraphs 110 and 129.

<sup>36</sup> Exhibit 22819-X0001.01, application update, Table 104, paragraph 221.

<sup>37</sup> Exhibit 22819-X0049, AG-AUC-2017AUG24-004(b) and (d).

isolation fittings, anodes, rectifiers and ground beds. The need for this program was approved in Decision 3267-D01-2015<sup>38</sup> and Decision 20604-D10-2016.<sup>39</sup>

55. The forecast to actual results for the Cathodic Protection Program in 2016 for the north was a variance of \$0.8 million below forecast, which is the difference between the forecast capital expenditures of \$1.5 million and the actual capital expenditures of \$0.7 million. The forecast to actual results for the Cathodic Protection Program in 2016 for the south was a variance of \$0.15 million above forecast, which is the difference between the forecast capital expenditures of \$1.7 million and the actual capital expenditures of \$1.8 million.<sup>40</sup>

56. ATCO Gas explained that the variance in the north was largely due to a combination of reduced volumes of anodes replaced at a lower unit rate for the Anode Replacement program component of the Cathodic Protection Program. In 2016, ATCO Gas replaced 549 anodes compared to the approved forecast of 914 anodes. Further, the actual cost per anode installed was \$587 rather than the forecast cost of \$1,119. The lower unit cost was a result of fewer sites requiring hydrovac servicing, concrete cutting and replacement.<sup>41</sup>

57. Capital tracker treatment for the Cathodic Protection Program in the south no longer meets the materiality threshold for Criterion 3 on an actual expenditures basis in 2016. However, as set out in paragraph 504 of Decision 2013-435, the portion of the K factor associated with the actual capital additions for this program in 2016 is included in the 2016 true-up.<sup>42</sup>

#### **7.2.1.5 Regulating Metering Station Improvements**

58. Regulating metering stations are the facilities required to receive gas on the distribution system from interconnections with the high pressure transmission system, as well as regulate pressures between different pressure distribution systems. Projects under this program are undertaken to address reliability and performance issues. Typical projects in this program include: installation of duplicate regulating “runs,” major repairs to station buildings, and replacement of equipment due to deterioration or performance issues. The need for this program was approved in Decision 3267-D01-2015 and Decision 20385-D01-2015. The Commission approved the 2016 capital tracker treatment on a forecast basis for this program, only for ATCO Gas’s north service territory, in Decision 20604-D01-2016.<sup>43</sup>

59. The forecast to actual variance for the Regulating Metering Station Improvements program in 2016 for the north was \$2.0 million above forecast, which is the difference between the forecast capital expenditures of \$1.4 million and the actual capital expenditures of \$3.4 million.<sup>44</sup>

60. ATCO Gas explained that the variance was due to the reactive nature of the work in this program being higher than the three-year average on which the forecast was based. ATCO Gas further commented that it encountered an increase in required improvements identified under the

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<sup>38</sup> Decision 3267-D01-2015, paragraph 630.

<sup>39</sup> Decision 20604-D10-2016, paragraphs 110 and 129.

<sup>40</sup> Exhibit 22819-X0001.01, application update, Table 112, paragraph 281.

<sup>41</sup> Exhibit 22819-X0001.01, application update, paragraphs 291-292.

<sup>42</sup> As shown in Table 1, the portion of the 2016 actual K factor associated with the Cathodic Protection Program in the south is approximately \$131,000.

<sup>43</sup> Decision 20604-D01-2016, paragraphs 132-134.

<sup>44</sup> Exhibit 22819-X0001.01, application update, Table 105.

Regulating Metering Station Improvements Program and attributed this factor to the aging nature of its assets. While urgent projects under this program are addressed as soon as possible, ATCO Gas clarified that less urgent projects are completed in conjunction with other site work when possible in order to achieve cost savings efficiencies.<sup>45</sup>

#### 7.2.1.6 Service Line Replacements and Improvements

61. The Service Line Replacements and Improvements Program consists of replacement or alteration of service lines due to safety, reliability or capacity issues, or as a result of a customer request. The replacement or alteration of service lines is typically identified through field observations, while completing inspections or other work at the same location. Customer-driven alterations are the result of customer requests for service line relocations, often as a result of home renovations, landscaping or the construction of additions, decks or garages. For customer-requested relocations, a direct customer contribution is required. The need for this program was approved in Decision 3267-D01-2015<sup>46</sup> and Decision 20604-D10-2016.<sup>47</sup>

62. The 2016 approved forecast capital expenditures for this program were \$2.7 million, while the actual 2016 capital expenditures were \$2.3 million, resulting in a \$0.4 million variance below forecast for the north. The 2016 approved forecast capital expenditures for this program were \$4.0 million while the actual 2016 capital expenditures were \$3.3 million, resulting in a \$0.7 million variance below forecast for the south.<sup>48</sup>

63. For the north, ATCO Gas stated that actual expenditures were within the Rule 005: *Annual Reporting Requirements of Financial and Operational Results* variance reporting threshold. For the south, ATCO Gas explained that the primary cause for the variance of \$0.7 million was a result of decreased redevelopment activity, which reduced the number of requests for service alterations in established areas.<sup>49</sup>

#### 7.2.1.7 New Regulating Meter Stations

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

65. The 2016 approved forecast capital expenditures for this program were \$2.9 million in the north, while the actual 2016 capital expenditures were \$1.6 million, resulting in a \$1.3 million variance below forecast for the north. The 2016 approved forecast capital expenditures for this program were \$1.6 million in the south, while the actual 2016 capital expenditures were \$1.4 million, resulting in a \$0.2 million variance below forecast for the south.<sup>50</sup>

66. ATCO Gas explained that the variance in this program in the north was due to growth in these areas being lower than the three-year average used to generate the forecast capital expenditures. Specifically, the decrease in spending was due to slowing growth in these areas

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<sup>45</sup> Exhibit 22819-X0001.01, application update, paragraph 236.

<sup>46</sup> Decision 3267-D01-2015, paragraph 327.

<sup>47</sup> Decision 20604-D10-2016, paragraphs 119 and 134.

<sup>48</sup> Exhibit 22819-X0001.01, application update, Table 107, paragraph 240.

<sup>49</sup> Exhibit 22819-X0001.01, application update, paragraph 246.

<sup>50</sup> Exhibit 22819-X0001.01, application update, Table 108.

resulting in a decrease in the need for new stations or upgrades to existing facilities.<sup>51</sup> For the south, ATCO Gas stated that actual expenditures were within the Rule 005 variance reporting threshold.<sup>52</sup>

### 7.2.1.8 Urban Main Improvements

67. The Urban Main Improvements program involves upgrading existing mains, upgrading supply pressure, and installing and replacing valves. This work is necessary in order for ATCO Gas to fulfill its obligation to provide safe and reliable gas distribution service. As part of that responsibility, ATCO Gas must construct facilities that accommodate changes in demand on the distribution system and that ensure the safe isolation of systems in case of an emergency. The work required under this program is typically identified and completed within the current year as the number of main improvements required and the scope of each improvement is not known far in advance. This program is in response to events such as municipal development and zoning, overall load growth, or inspection results.

68. The need for this program was approved in Decision 3267-D01-2015. The Commission approved 2016 capital tracker treatment on a forecast basis for this program in Decision 21606-D01-2016.<sup>53</sup>

69. The 2016 approved forecast capital expenditures for this program were \$3.9 million in the north, while the actual 2016 capital expenditures were \$3.7 million, resulting in a \$0.2 million variance below forecast for the north, which is within the Rule 005 variance reporting threshold.<sup>54</sup> ATCO Gas is no longer seeking capital tracker treatment for this program for the south territory in 2016, as it no longer meets the Commission's Criterion 3 threshold.<sup>55</sup>

### 7.2.1.9 Urban Main Relocations

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

71. The forecast to actual variance for Urban Main Relocations in 2016 for the north was \$3.0 million below forecast, which is the difference between the forecast capital expenditures of \$7.9 million and the actual capital expenditures of \$4.9 million. The forecast to actual variance for Urban Mains Relocations in 2016 for the south was \$2.3 million above forecast, which is the difference between the forecast capital expenditures of \$2.3 million and the actual capital expenditures of \$4.6 million.<sup>56</sup>

72. ATCO Gas explained that expenditures were lower in the north than forecast due to fewer municipal projects occurring and less work with municipalities, developers and Alberta

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<sup>51</sup> Exhibit 22819-X0001.01, application update, paragraph 256.

<sup>52</sup> Exhibit 22819-X0001.01, application update, paragraph 256.

<sup>53</sup> Decision 21606-D01-2016, paragraph 86.

<sup>54</sup> Exhibit 22819-X0001.01, application update, Table 109, paragraphs 260 and 268.

<sup>55</sup> Exhibit 22819-X0001.01, application update, paragraph 229.

<sup>56</sup> Exhibit 22819-X0001.01, application update, Table 110, paragraph 270.

Transportation. Expenditures were higher in the south due to ATCO Gas undertaking a number of large complex projects requested by third parties.<sup>57</sup>

73. ATCO Gas indicated it is no longer seeking capital tracker treatment for the Urban Main Relocations Program in the south as it no longer meets the materiality Criterion 3 on an actual expenditures basis in 2016.<sup>58</sup> However, as set out in paragraph 504 of Decision 2013-435, the portion of the K factor associated with the actual capital additions for this program in 2016 is included in the 2016 true-up.<sup>59</sup>

#### **7.2.1.10 Alberta Floods**

74. The Alberta Floods Program captures the expenditures associated with repairs to ATCO Gas's facilities required as a result of severe flooding along the Bow, Elbow, Red Deer and Highwood rivers in June 2013. In previous applications, ATCO Gas stated that replacement of flood damaged facilities was necessary in order for ATCO Gas to maintain service to existing customers in a safe and reliable manner. The flood resulted in loss of service to customers and safety risks in the form of exposed, severed or leaking gas facilities.

75. The Commission previously assessed the prudence of actual capital expenditures for this program in Decision 2738-D01-2016 for years 2013 and 2014, and in Decision 21843-D01-2017 for year 2015, and in both decisions the Commission found the actual costs to be prudent. In the current proceeding, ATCO Gas sought capital tracker treatment for this program for 2016, although there were no new capital expenditures in 2016. In response to a Commission IR, ATCO Gas explained that while there were no capital expenditures for work for this program in 2016, there is an ongoing revenue requirement associated with these capital expenditures, including depreciation, return on equity (ROE) and taxes. Therefore, there continues to be a funding shortfall above the K factor materiality threshold related to prior year additions, in the amount of \$0.609 million.<sup>60</sup>

#### **Commission findings**

76. With respect to the true-up of 2016 actual costs for projects or programs for which the Commission has previously confirmed the need under the project assessment component of Criterion 1 in prior capital tracker decisions, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a project mentioned in this section was no longer required in 2016, ATCO Gas is not required to demonstrate that the projects were needed in order to provide utility service at adequate levels in 2016. The Commission has previously determined that each of the 10 programs or projects considered in this section, related to the projects or programs for which no objections were raised, have satisfied the project assessment requirement of capital tracker Criterion 1 in one or more previous years. Moreover, the Commission finds no evidence on the record of this proceeding to indicate that any of the programs or projects listed in this section, for which no objections were raised, were not required in 2016.

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<sup>57</sup> Exhibit 22819-X0001.01, application update, paragraph 279.

<sup>58</sup> Exhibit 222819-X0001.01, application, paragraph 259.

<sup>59</sup> As shown in Table 1, the portion of the 2016 actual K factor associated with the Urban Main Relocations Program in the south is approximately \$125,000.

<sup>60</sup> Exhibit 22819-X0049, AG-AUC-2017AUG24-013(a).

77. The Commission reviewed ATCO Gas's 2016 actual capital expenditures associated with each of the programs or projects carried out in 2016 for which no objections were raised, and finds that the capital expenditures are generally consistent with the scope, level and timing of the work outlined in the business cases for these capital trackers and approved in Decision 3267-D01-2015.

78. The Commission has also reviewed the 2016 actual capital additions for each of these programs or projects in light of the evidence supporting these costs, the associated procurement and construction practices, the magnitude of the variances, and the evidence explaining the variances between approved forecast and actual costs, and finds the actual costs to be prudent.

## 7.2.2 Projects or programs requiring further comment

### 7.2.2.1 Steel Mains Replacement

79. ATCO Gas described its Steel Mains Replacement (SMR) Program, historically named the Urban Mains Replacement Program, as an ongoing program that evaluates installed steel mains and identifies projects that have reached the end of their safe, operable lives, and as a result require replacement. ATCO Gas stated that its SMR Program ensures that mains and services are removed from operation when no remaining alternatives exist to mitigate the increasing risk associated with these assets. This is achieved through ATCO Gas's ongoing evaluation of installed steel mains and continuous identification of projects that have reached the end of their operable lives within ATCO Gas's service territory. Through this program, ATCO Gas mitigates the risk of natural gas accumulation in a confined space of an urban setting with multiple ignition sources.

80. For the 2016 planned SMR residential and commercial projects, ATCO Gas used a cost per service forecast, based on actual costs from similar 2014 SMR projects adjusted for inflation, whereas 2016 SMR feeder projects were forecast based on historic contract rates and 2015 bids received. The Commission approved the capital tracker treatment on a forecast basis for this program for 2016 in Decision 21606-D01-2016.

81. The table below sets out the forecast to actual variance for this program in 2016:

**Table 7. 2016 SMR forecast and actual capital expenditures for north and south**

|                     | Forecast | Actual | Variance |
|---------------------|----------|--------|----------|
|                     | (\$000)  |        |          |
| Total costs – North | 27,990   | 23,903 | (4,087)  |
| Total costs – South | 10,840   | 11,426 | 586      |

Source: Exhibit 22819-X0001.01, application, table 6.

82. ATCO Gas submitted that the scope of the overall SMR Program varied from the original forecast for four projects. These SMR projects are 106 Avenue Feeder, Dover, Marlborough, and Glenmore Trail Feeder, which were initially identified for replacement in 2016 but were delayed to 2017. Four new additional projects (Homesteader, High River West-Central, Turner Valley, and Deerfoot Trail Feeder) were identified and completed in 2016.

83. The total infrastructure replaced varied from the original forecast with approximately 4.5 per cent fewer mains and 15.4 per cent fewer services being replaced, translating into a 6.7 per cent reduction in total actual costs from the forecast.

84. ATCO Gas noted that emergency replacement expenditures were approximately 64 per cent lower than forecast, and in 2016, ATCO Gas's approach to emergency replacement remained consistent with past years. Emergency replacements are forecast based on a three-year average of historic costs. ATCO Gas stated it has experienced less emergency work in 2016 due to fewer leaks on the system that required less mains replacement than has occurred in the past.

### Views of the parties

85. The CCA raised issues with the SMR Program in terms of the integrity assessments required by Decision 20604-D01-2016. Integrity assessments were directed to be provided as part of the 2016 capital true-up application. The CCA specifically commented on 14 of the integrity assessments included in the application.<sup>61</sup> Based on the integrity assessments provided, the CCA stated that there is no support for ATCO Gas's decision to replace entire SMR systems. Generally, the CCA's concerns related to the prudence of decisions based on a lack of information related to mechanical fittings, couplings, valves, thickness of pipe, pipe defects and corrosion; deficiencies in evaluating mains and services; and issues with proper sampling.

86. The CCA argued that ATCO Gas's integrity assessments do not specifically identify replacements that are required and, in most instances, there is not independent verification of ATCO Gas's internal engineering assessments. ATCO Gas has not evaluated the system integrity of areas to be replaced and instead, it has selectively provided a few samples of piping or components it considers to have failed. As a result, ATCO Gas has not complied with the Commission's direction in Decision 20604-D01-2016 and new integrity assessments must be provided.

87. The CCA submitted that the Commission should direct ATCO Gas to complete integrity assessments for the purposes of verifying ATCO Gas's replacement methodology "to ensure only areas requiring replacement are identified."<sup>62</sup> The CCA concluded that true-up costs for these SMR projects should not be approved, as filed.

88. The UCA expressed concern regarding ATCO Gas's approach to variance explanations and information supporting the true up of costs for the SMR Program. In the UCA's view, ATCO Gas failed to explain the difference between the forecast costs of projects approved for capital tracker treatment and the actual cost of these projects undertaken in the prior year, in part because ATCO Gas forecasts SMR feeder projects on a cost per meter basis. Such an approach represents total forecast project costs that are not broken down by component. For example, contractor costs for construction were not provided, making it impossible to compare actual contractor costs to forecast costs.

89. Additionally, the UCA expressed concern with ATCO Gas's explanation of why the actual costs per service for certain SMR projects were significantly higher than forecast, when ATCO Gas acknowledged that the completed projects had much lower service densities than the

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<sup>61</sup> Exhibit 21843-X0058, CCA argument, paragraph 8 lists the 14 integrity assessments reviewed by the CCA.

<sup>62</sup> Exhibit 21843-X0058, CCA argument, paragraph 63.



projects used for forecast purposes. The UCA argued that an unreliable and inaccurate methodology was used to forecast the SMR projects.

90. The UCA argued that the manner in which ATCO Gas forecasts makes it impossible to explain variances in a comprehensible or reasonable way. The UCA recommended that, on a go-forward basis, ATCO Gas be directed to forecast capital tracker projects in a manner that will allow it to fully explain the differences between forecast and actual costs. This direction should include differences between forecast and actual contractor costs, as well as an ability to adjust forecast costs for expected service densities.

91. ATCO Gas responded to the CCA's submissions on integrity assessments, indicating that these assessments were never intended to be elevated to the point that they override the entire justification for the SMR Program. The CCA's focus on the integrity assessment ignores the balance of evidence supporting the work undertaken as part of the SMR Program. The integrity assessment cannot substantially replace decisions related to entire systems, and these assessments are not representative of system conditions overall. Replacement decisions are based on overall risk and the objective of the SMR Program is to provide safe and reliable service, and when replacement occurs, customers benefit through the extended life of new assets. ATCO Gas explained, it:

... selected samples for the integrity assessments based on the risk assessment presented in the Engineering Assessments. For example, if the replacement decision was based on the presence of bare steel mains, a sample of bare steel main was selected for the Integrity Assessment. If, however, the replacement decision was made because of an elevated mechanical leak frequency, then mechanical couplings were selected, instead of mains, since the risk of mechanical leaks (not risk of corrosion leaks on mains) was the basis for the replacement decision.<sup>63</sup>

92. ATCO Gas maintained that at a minimum, the CCA's approach would significantly increase the time required to replace problematic steel mains, with associated costs and disruption.

93. In response to the UCA's concern, ATCO Gas stated that while it was unable to break down its forecast on component-specific basis, it has however provided, as part of confidential module in this proceeding, comprehensive information comprised of procurement data for all SMR projects and full tender packages and bid evaluations for certain feeder projects to demonstrated the prudence of its actual costs. ATCO Gas explained that it is difficult to predict contractor bids at the time of tender and that it would be much more difficult to do so a year in advance in light of potentially changing market conditions and economic variables. ATCO Gas also pointed out that the variance explanations it has provided within its application, in addition to material regarding ATCO Gas's procurement, construction and project cost management practices, are consistent with what ATCO Gas provided in its 2015 capital tracker true-up application.

### **Commission findings**

94. The need for the SMR Program as part of the project assessment under capital tracker Criterion 1 was previously approved by the Commission in Decision 2013-435<sup>64</sup> and Decision

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<sup>63</sup> Exhibit 22819-X0062, ATCO Gas's reply argument, paragraph 71.

<sup>64</sup> Decision 2013-435, paragraph 636.

20604-D01-2016.<sup>65</sup> With respect to the true-up of 2016 actual costs, if the need for a project or program was previously established in Decision 2013-435 or Decision 20604-D01-2016 and if there is an absence of evidence on the record of this proceeding demonstrating that the project or program was not required in 2016, there is no need to demonstrate again that a project or program is needed in order to provide utility service at adequate levels in 2016. The Commission finds no evidence on the record of this proceeding to indicate that the SMR Program was not required in 2016. Accordingly, the program continues to satisfy the requirement of Criterion 1 that the program was needed in 2016.

95. Although ATCO Gas is not required to demonstrate the need for the SMR Program, it must still provide sufficient evidence to demonstrate that the scope, level, timing and actual costs of the program were prudent in 2016 in order to satisfy the project assessment as part of Criterion 1.

96. The interveners raised three main issues, as follows:

- The use of integrity assessments in support of the prudence of 2016 actual capital expenditures.
- The differences between forecast and actual capital expenditures that support prudence.
- Service densities or costs per meter and the resulting impact on the 2016 true-up amounts.

97. First, the Commission does not accept the CCA's argument that integrity assessments must always have an independent consultant involved in the assessment, because this would not be a cost effective approach and it is ultimately unclear what the benefit would be to customers of conducting an integrity assessment for all SMR replacements, when there are engineering assessments and SMR demerit point system ratings that are conducted in advance of steel mains replacement. Further, the Commission confirmed the role of engineering judgment with respect to SMR Program forecasts in Decision 3267-D01-2015:

... The Commission considers that the professional judgement of ATCO Gas engineers should continue to play an important role in the assessment of ATCO Gas steel mains. Nevertheless, the Commission considers that using an objective tool, like the demerit point system, to assess the safety and reliability of ATCO Gas's system that is based primarily on the physical attributes of the pipe being considered and the environment in which it is placed, is helpful in assessing the need for pipe replacements ...<sup>66</sup>

98. After-the-fact integrity assessments are informative, but they may not inform better replacement protocol for every SMR project depending on the nature of the replacement, i.e., pipe integrity, assessment of mechanical fittings or for other issues or extenuating circumstances, such as whether the sample is or is not conducive to testing.

99. The findings in paragraphs 174 and 175 of Decision 20604-D01-2016 specifically addressed the value of integrity assessments:

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<sup>65</sup> Decision 20604-D01-2016, paragraph 180.

<sup>66</sup> Decision 3267-D01-2015, paragraph 231.

The CCA submitted that there has never been any verification that the current methodology for determining projects under the SMR program results in the selection of only the SMR projects that genuinely require replacement. The Commission shares this concern, and directs ATCO Gas to perform an integrity assessment of all SMR projects that are completed between the release of this decision and the end of 2016. However, the Commission accepts ATCO Gas's position that project closeout reports are not the appropriate vehicle for an integrity assessment. The Commission, therefore, is not requiring ATCO Gas to perform this integrity assessment as a part of its project closeout reports.

ATCO Gas is directed to provide the information referred to in the previous paragraph as a part of the 2016 capital tracker true-up application. It should be noted that this information will not be used in a retroactive manner to reassess the validity of its 2016 SMR programs, which have been approved using the current methodology; but to assist the Commission with assessing the information required for ongoing and future ATCO Gas SMR projects.

100. The Commission finds that the integrity assessments provide valuable information about the SMR projects and the resultant replacements that were made. The integrity assessments include the demerit point system ratings, leak analysis and explanation of the other factors relevant to SMR replacements. The assessments provided information about how the replacements led to true-up amounts and this information is valuable in assisting the utility, interveners and the Commission in tracking steel mains replacements included in the true-up application for 2016, and beyond 2016. Based on the information provided in the assessments, the Commission does not agree with the CCA that further directions on integrity assessments are required, because ATCO Gas has either provided an integrity assessment or it has stated why it could not provide an integrity assessment in all cases. Integrity assessments were provided for the majority of 2016 SMR projects and ATCO Gas has sufficiently complied with the Commission's direction in paragraphs 174 and 175 of Decision 20604-D01-2016.

101. Second, the prudence of actual costs in 2016 was raised by the CCA and the UCA. The purpose of this proceeding is to true up ATCO Gas's forecasts to its actual 2016 costs for capital programs or projects that satisfy the three capital tracker criteria. The Commission has affirmed that a company does not have to wait for the Commission's approval of its forecast for capital tracker treatment before it proceeds with projects required to maintain service, reliability and safety at adequate levels. Nor does this prevent ATCO Gas from receiving its reasonable compensation for all prudently incurred project costs at the time of its true-up application.<sup>67</sup>

102. The burden of proof to establish prudence is on the applicant. The Commission has no obligation to presume prudence when no evidence is provided to the contrary and must evaluate all costs on the merits of the evidence, or lack of evidence, before it. The prudence test was set out in Decision 2001-110:

In summary, a utility will be found prudent if it exercises good judgment and makes decisions which are reasonable at the time they are made, based on information the owner of the utility knew or ought to have known at the time the decision was made. In making

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<sup>67</sup> Decision 20604-D01-2016, paragraph 181.

decisions, a utility must take into account the best interests of its customers, while still being entitled to a fair return.<sup>68</sup>

103. The burden of proof and prudence was confirmed by the Supreme Court of Canada in *ATCO Gas and Pipelines Ltd. v Alberta (Utilities Commission)*. Justice Rothstein, writing for the court, stated the following with respect to the Alberta legislative scheme:

The prudence requirement is to be understood in the sense of the ordinary meaning of the word: for the listed costs and expenses to warrant a reasonable opportunity of recovery, they must be wise or sound; in other words, they must be reasonable. Nothing in the ordinary meaning of the word “prudent” or the use of this word in the statute as a stand-alone condition says anything about the time at which prudence must be evaluated. Thus, neither the ordinary meaning of “prudent” nor the statutory language indicate that the Commission is bound by the legislative provisions to apply a no-hindsight approach to the costs at issue, nor is a presumption of prudence statutorily imposed in these circumstances. In the context of utilities regulation, there is no difference between the ordinary meaning of a “prudent” cost and a cost that could be said to be reasonable. It would not be imprudent to incur a reasonable cost, nor would it be prudent to incur an unreasonable cost. Further, the burden of establishing that the proposed tariffs are just and reasonable falls on public utilities, which necessarily imposes on them the burden of establishing that the costs are prudent.<sup>69</sup>

104. The Commission agrees that the test for prudence applies to this application. Based on the Commission’s review of ATCO Gas’s application business cases, tender packages, bid evaluations, and procurement information in general, the Commission finds that ATCO Gas has provided variance explanations and other reasons supporting the prudence of its actual costs included in its 2016 capital tracker true-up. The capital expenditures were explained for the SMR projects, which in turn support the variances between forecasts and actual costs. For example, ATCO Gas explained that the large variance for the Lauderdale Feeder Project is reflective of competitive market conditions experienced at the time the project was tendered and awarded in comparison to historical contract rates.<sup>70</sup> In support of the project, as part of the confidential IR module, ATCO Gas provided a tender package consisting of a request for quote circulated to contractors, received and evaluated bid responses, and executed contracts.

105. The UCA expressed concerns with ATCO Gas’s forecasting methodology in light of its view that the magnitude of variances are driven by unreliable and inaccurate forecasts, and recommended that, on a go-forward basis, ATCO Gas be directed to forecast capital tracker projects in a manner that will allow it to fully explain the differences between forecast and actual costs. Given that in Decision 21843-D01-2017, the Commission approved ATCO Gas’s updated forecast for 2017 for the SMR Program,<sup>71</sup> and because 2017 capital tracker true-up will be ATCO Gas’s last capital tracker true-up application, the Commission will not direct ATCO Gas to revise its forecast for this program for 2017. The Commission also considers it is not necessary to deviate from the Commission’s previously established direction to ATCO Gas in

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<sup>68</sup> Decision 2001-110: Methodology for Managing Gas Supply Portfolios and Determining Gas Cost Recovery Rates Proceeding and Gas Rate Unbundling Proceeding, Part B-1: Deferred Gas Account Reconciliation for ATCO Gas, December 13, 2001, PDF page 14.

<sup>69</sup> *ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. v Alberta Utilities Commission and the Office of the Utilities Consumer Advocate of Alberta*, 2015 SCC 45, page 2.

<sup>70</sup> Exhibit 22819-X0001.01, application, paragraph 112.

<sup>71</sup> Decision 21843-D01-2017, paragraph 200.

Decision 3267-D01-2015 with respect to the level of detail of actual costs to be included in the next capital tracker true-up application, subject to the findings made elsewhere in this decision. However, ATCO Gas is reminded to continue to provide information that demonstrates that it has completed specific capital tracker projects in the “most cost effective manner possible.”<sup>72</sup>

106. With respect to the final matter of the variances arising from service densities and costs per meter, ATCO Gas has clarified that at the time of preparing its forecast service densities, only one single residential project was completed for the south territory and was therefore utilized as part of forecasting. Since data from only one project was available, it would not have been possible to estimate the impact of service density on cost. The costs per meter were impacted by contractor availability or other market conditions and therefore the variances from forecast were supported. The Commission agrees with ATCO Gas’s position that not all of the service densities or costs per meter will remain the same for replacement projects between the forecasts and actuals in a given year.

107. The Commission finds that the actual costs for the SMR Program are sufficiently supported and the SMR Project true-up amounts are approved for 2016. The SMR Program continues to satisfy the project assessment requirement of Criterion 1.

#### 7.2.2.2 Transmission Driven Capital

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

109. The table below sets out the forecast to actual variance for this program in 2016:

**Table 8. 2016 Transmission Driven forecast and actual capital expenditures**

|                     | Forecast | Actual | Variance |
|---------------------|----------|--------|----------|
|                     | (\$000)  |        |          |
| Total costs – North | 35,546   | 24,029 | (11,517) |
| Total costs – South | 36,051   | 55,840 | 19,788   |

Source: Exhibit 22819-X0001.01, application, Table 36.

110. The most significant projects in this program are the distribution projects required as a result of the ATCO Pipelines’ Urban Pipeline Replacement (UPR) Program to replace and relocate several high-pressure pipelines to the transportation utility corridors in the Calgary and Edmonton areas.

111. ATCO Gas explained that in 2016 it continued to work closely with ATCO Pipelines in the UPR Program.<sup>73</sup> ATCO Gas noted that in 2016, timing for a number of the UPR projects was shifted in order to decrease the overall impact of the UPR work on customers. Further, ATCO Gas stated that adjusting its project scheduling was necessary in order to meet the ATCO Pipelines’ project schedule.

<sup>72</sup> Decision 2012-237, paragraph 975.

<sup>73</sup> Exhibit 22819-X0001.01, application update, paragraph 154.

## Views of the parties

112. The UCA expressed concern that the UPR Project has increased in scale and scope since it was initially approved, and indicated that ATCO Gas's certain responses to the UCA's IRs were non-responsive with respect to costs being higher than forecast. Year-to-year spending on multi-year projects must be done on the total project and not on one-year of the project, particularly when projects span several years. The UCA concluded:

As 2017 is the last year of the Capital Tracker program under the first generation PBR, it is appropriate to evaluate the total cost of multi-year projects, over the PBR term, to ensure that customers have not paid too much in rates for capital projects.<sup>74</sup>

113. The UCA recommended that 2016 costs for any multi-year projects, such as UPR, be approved on a placeholder basis only, pending the review of the total project scope and costs. Further, the UCA recommends that in the 2017 true-up application ATCO Gas be directed to provide a year-by-year overview of the UPR Program as originally envisaged and approved by year to the total project at the end of the PBR term.

114. ATCO Gas responded that its forecast methodology for the Transmission Driven Capital, of which the UPR Program is a part, has not changed. UPR-related projects have always been presented and justified individually in the annual capital tracker applications. ATCO Gas stated it has been fully responsive to IRs and it has justified its actual costs. UPR was never presented as a five-year capital tracker program at the outset of the first PBR term, where true-up would only occur in the final year, which is what the UCA appears to contemplate. ATCO Gas stated that there is no reason for a "do-over" of these forecasts, particularly since 2017 is almost complete.<sup>75</sup>

## Commission findings

115. The Commission does not consider it necessary to change the assessment of the Transmission Driven Capital Program for 2016, and 2016 true-up amounts can be approved on a final basis. As stated in the previous section with respect to the SMR Program, the Commission is aware that projects do change in size and scope when compared to what was originally forecast and when assessing the prudence of actual costs, and programs not contemplated in the forecast can be applied for in the true-up application.

116. For ATCO Gas's 2017 capital tracker true-up application, the Commission considers a report on the status of the UPR projects, as part of ATCO Gas's Transmission Driver Capital Program, to be useful in assessing the prudence of 2017 costs. Accordingly, the Commission directs ATCO Gas in its 2017 capital tracker true-up application to provide a project update report, similar to Appendix F – Calgary Centre Gate Station Project update submitted in this proceeding, to assist the Commission in evaluating project costs for 2017, in comparison to the total costs expended for individual projects to date.

117. The Commission has reviewed the costs of the 2016 actual capital additions for the Transmission Driven Capital Program and evidence supporting the changes in scope, level, timing and actual costs associated with the program. Delays in timing or changes in projects were provided in Section 4.4.3 of the application<sup>76</sup> and specifically for one project, Calgary

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<sup>74</sup> Exhibit 22819-X0060, paragraph 28.

<sup>75</sup> Exhibit 22819-X0062, paragraph 34.

<sup>76</sup> Exhibit 22819-X0001.01, application update, sections 4.4.3.2.1, 4.4.3.2.2, 4.4.3.2.3.

Centre Gate Station, a project update was provided (Appendix F).<sup>77</sup> The Commission finds that the expenditures incurred in 2016 and the variances were reasonable. Accordingly, the Commission finds the actual costs for the Transmission Driven Capital Program to be prudent for 2016 and that the program continues to satisfy the project assessment requirement of Criterion 1.

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

### 8.1 Accounting test for the 2016 true-up

118. As explained in Decision 2013-435, the purpose of the accounting test is to determine whether a project or program (depending on the approved level of grouping) proposed for capital tracker treatment is outside the normal course of the company’s ongoing operations. This is achieved by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the project or program.<sup>78</sup> A summary description of the accounting test was provided in Section 7.1 of Decision 20555-D01-2016,<sup>79</sup> at paragraphs 460 to 468.

119. ATCO Gas’s accounting test model for the 2016 capital tracker true-up was provided in Appendix A of the application.<sup>80</sup> For the 2016 capital tracker true-up, ATCO Gas used the following assumptions in its accounting test:

**Table 9. ATCO Gas’s 2016 capital tracker true-up accounting test assumptions**

|   |                            |
|---|----------------------------|
| 2016 approved I-X index                             | 0.90%                      |
| 2016 approved Q                                     | 2.35% north<br>1.97% south |
| 2016 actual weighted average cost of capital (WACC) | 6.40%                      |

Source: Exhibit 22819-X0001.01, application, paragraph 32.

120. ATCO Gas’s actual 2016 WACC rate of 6.40 per cent is based on the actual cost of debt of 5.36 per cent, the approved equity thickness of 37 per cent and the approved ROE of 8.3 per cent, as determined in the 2016 generic cost of capital (GCOC) Decision 20622-D01-2016.<sup>81</sup>

121. No party raised issues with ATCO Gas’s accounting test assumptions.

### Commission findings

122. The Commission finds the schedules that make up ATCO Gas’s accounting test for the purposes of the 2016 capital tracker true-up to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. The Commission has verified

<sup>77</sup> Exhibit 22819-X0011, Appendix F - Transmission Driven Project update.

<sup>78</sup> Decision 2013-435, paragraphs 149-150.

<sup>79</sup> Decision 20555-D01-2016: ATCO Electric Ltd., 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 20555, March 3, 2016.

<sup>80</sup> Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.

<sup>81</sup> Decision 2191-D01-2015: 2013 Generic Cost of Capital, Proceeding 2191, Application 1608918-1, March 23, 2015.

ATCO Gas's WACC, I-X and Q assumptions used in the first component of the accounting test, and finds that ATCO Gas used the correct values.

123. In Decision 3434-D01-2015, the Commission determined that revenue requirement calculations in the second component of the accounting test should be based on the current year's WACC rate which, in turn, is calculated based on the actual or forecast cost of debt, as well as the approved ROE and capital structure for that year.<sup>82</sup> No party raised concerns with ATCO Gas's calculations of the 2016 actual WACC rate. Therefore, the Commission finds ATCO Gas's 2016 actual WACC rate of 6.40 per cent used in the second component of its accounting test, which is based on the 2016 actual weighted average cost of debt of 5.36 per cent (from ATCO Gas's 2016 Rule 005 filing<sup>83</sup>), the equity thickness of 37 per cent and ROE of 8.3 per cent, and both approved in Decision 2191-D01-2015, to be reasonable.

124. For the reasons above, the Commission is satisfied that ATCO Gas's accounting test model sufficiently demonstrates that all of the actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the accounting test component of Criterion 1. The Commission's determinations on whether ATCO Gas's projects or programs proposed for capital tracker treatment in 2016 on an actual basis satisfy both the accounting test and the project assessment components of Criterion 1 are set out in Section 8.2 below.

## **8.2 Commission's conclusions on Criterion 1**

125. In Section 7 of this decision, based on the project assessment under Criterion 1, the Commission approved the need, scope, level, timing and the prudence of actual capital additions for each project or program that ATCO Gas included in the 2016 true-up. The Commission therefore determines that all of ATCO Gas's programs or projects included in the 2016 true-up satisfy the project assessment requirement of Criterion 1.

126. For the reasons set out in Section 8 of this decision, the Commission finds that all of ATCO Gas's programs or projects included in the 2016 true-up satisfy the accounting test under Criterion 1. Therefore, the Commission finds that all of ATCO Gas's programs or projects included in the 2016 true-up satisfy the requirements of Criterion 1 for capital tracker treatment.

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

127. With respect to Criterion 2, the Commission clarified in Decision 2013-435 that, in addition to asset replacement projects and projects required by an external party, in principle, a growth-related project will satisfy the requirements of Criterion 2 where it can be demonstrated that customer contributions, together with incremental revenues allocated to the project on some reasonable basis, when added to the revenue provided under the I-X mechanism, are insufficient to offset the revenue requirement associated with the project in a PBR year.<sup>84</sup> Certain projects proposed for capital tracker treatment that do not fall into any of the growth-related, asset

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<sup>82</sup> Decision 3434-D01-2015, paragraph 40.

<sup>83</sup> Rule 005: ATCO Gas Distribution, Schedule 2.

<sup>84</sup> Decision 2013-435, paragraph 309.



replacement or external party related categories might also satisfy Criterion 2 in certain circumstances, as discussed in Section 3.2.4 of Decision 2013-435.<sup>85</sup>

128. As set out in Section 4 of this decision, for the purposes of the true-up of the 2016 capital tracker programs or projects for which the Commission undertook and approved the assessment against the Criterion 2 requirements in prior capital tracker decisions, there is no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program has changed. In the application, ATCO Gas confirmed that “none of the project or program drivers for previously approved trackers have changed” for the purposes of assessing Criterion 2.<sup>86</sup>

### **Commission findings**

129. Consistent with the determinations in Section 4 of this decision, because the driver or drivers (e.g., replacement of existing assets, external party, growth) for each project or program included in ATCO Gas’s 2016 capital tracker true-up have not changed since the Commission undertook and approved proposed capital tracker projects and programs against the Criterion 2 requirements in prior capital tracker decisions, and most recently in Decision 20604-D01-2016, there is no need to undertake a reassessment of these programs or projects against the Criterion 2 requirements.

130. The Commission directs ATCO Gas, in its 2017 capital tracker true-up application, to address whether the driver for any of the previously approved forecast programs or projects, for which ATCO Gas is applying for true-up, has changed. In the event that the driver of the project or program has changed since the forecast project or program was approved, ATCO Gas is directed to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2, as previously directed at paragraph 639 of Decision 3267-D01-2015.

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

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

132. In accordance with the Commission’s determinations in Decision 2013-435, the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test, is then assessed against the two-tiered materiality test under Criterion 3. The first tier of the materiality threshold, a “four basis point threshold,” is applied at a project level, grouped in the manner approved by the Commission. The second tier of the materiality threshold, a “40 basis

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<sup>85</sup> Decision 2013-435, paragraph 314.

<sup>86</sup> Exhibit 22819-X0001.01, application update, paragraph 80.

point threshold,” is applied to the aggregate revenue requirement proposed to be recovered by way of all capital trackers.<sup>87</sup>

133. In Decision 2013-435, the Commission calculated the four basis point threshold and the 40 basis point threshold based on the dollar value of ATCO Gas’s ROE in 2012. The Commission indicated that in subsequent PBR years, the four basis point threshold and the 40 basis point threshold are to be calculated by escalating the respective 2012 amounts by I-X.<sup>88</sup>

134. For the 2016 capital tracker true up, ATCO Gas used the 2016 four basis point threshold of \$0.151 million for the north and \$0.123 million for the south, and the 40 basis point threshold of \$1.51 million for the north and \$1.23 million for the south, which were previously approved in Decision 20385-D01-2015.<sup>89</sup> These amounts were calculated by escalating the respective 2012 amounts by the approved 2013, 2014, 2015 and 2016 I-X index values. ATCO Gas then assessed each of the capital tracker projects included in the 2016 true-up against the two-tiered materiality test, in accordance with the requirements set out in Decision 2013-435. ATCO Gas indicated that each project or program included in the 2016 capital tracker true-up satisfies Criterion 3.<sup>90</sup>

### **Commission findings**

135. For its 2016 true-up calculations, ATCO Gas used the first and second tier materiality thresholds approved in Decision 20385-D01-2015, based on the approved 2013, 2014, 2015 and 2016 I-X index values. The Commission has reviewed ATCO Gas’s calculations, and is satisfied that ATCO Gas has interpreted and applied the Criterion 3 two-tiered materiality test properly for the purposes of its 2016 capital tracker true-up, based on the projects and assumptions included in the application. Accordingly, the Commission finds that all of ATCO Gas’s projects or programs included in the 2016 true-up satisfy the Criterion 3 materiality test requirements.

## **11 ATCO Gas’s compliance with Commission directions**

136. In Decision 3267-D01-2015, Decision 20604-D01-2016 and Decision 21843-D01-2017, the Commission issued a number of directions to ATCO Gas that were applicable to its future capital tracker applications. ATCO Gas’s responses to the Commission directions were provided in Section 2.0 of its application.<sup>91</sup>

### **Commission findings**

137. In previous sections of this decision, the Commission addressed ATCO Gas’s compliance with certain directions from Decision 3267-D01-2015, Decision 20604-D01-2016 and Decision 21843-D01-2017. The Commission has reviewed ATCO Gas’s responses to the directions of the Commission not specifically addressed in the previous sections of this decision and is satisfied that ATCO Gas has complied with these directions.

138. In its 2017 capital tracker true-up application, ATCO Gas is directed to continue to provide similar information to that provided in this application with respect to each of the minimum filing requirements, including updated business cases, engineering studies and

<sup>87</sup> Decision 2013-435, paragraphs 382-385.

<sup>88</sup> Decision 2013-435, paragraphs 378 and 384.

<sup>89</sup> Decision 20385-D01-2015, paragraph 42.

<sup>90</sup> Exhibit 22819-X0001.01, application update, paragraph 56.

<sup>91</sup> Exhibit 22819-X0001.01, application update, paragraphs 12-29.

cost-related information, actual costs by cost category, unit costs, and integrity assessments in sufficient detail to allow an evaluation of the prudence of its incurred costs. ATCO Gas is further directed to file its capital tracker business cases and updates, filed in support of the forecast costs, for the programs and projects which ATCO Gas includes in the 2017 capital tracker true-up.

## 12 2016 K factor true-up calculations

139. In Decision 21606-D01-2016, the Commission approved the 2016 forecast K factors of \$29.0 million and \$18.3 million to be recovered from ATCO Gas's customers in the north and south, respectively, on an interim basis.<sup>92</sup> As part of the 2016 capital tracker true-up, ATCO Gas calculated its actual 2016 K factors to be \$24.9 million and \$17.1 million in the north and south, respectively,<sup>93</sup> resulting in a proposed 2016 K factor true-up adjustment of \$4.2 million and \$1.2 million to be refunded to customers in the north and south, respectively, as shown in Table 1 from Section 5 of this decision.

### Commission findings

140. In Section 7 of this decision, the Commission confirmed the prudence of actual capital expenditures associated with ATCO Gas's projects or programs included in the 2016 capital tracker true-up. In sections 8, 9 and 10, the Commission concluded that all of ATCO Gas's programs or projects included in the 2016 capital tracker true-up satisfy the requirements of the remaining capital tracker criteria. Accordingly, the Commission approves the actual 2016 K factors of \$24.9 million in the north and \$17.1 million in the south and the associated K factor true-up refund of \$4.2 million and \$1.2 million in the north and south, respectively.

141. Because there is no requirement for a compliance application to this decision, the Commission directs ATCO Gas to include the 2016 K factor true-up refund amounts approved in this decision in its 2018 PBR rates application.

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<sup>92</sup> Decision 21606-D01-2016, Table 1.

<sup>93</sup> Exhibit 22819-X0001.01, application update, Table 2.

**13 Order**

142. It is hereby ordered that:

- (1) ATCO Gas and Pipelines Ltd.'s actual 2016 K factors of \$24.9 million in the north service territory and \$17.1 million in the south service territory, and the associated K factor true-up refunds of \$4.2 million in the ATCO Gas north service territory and \$1.2 million in the ATCO Gas south service territory, are approved.

Dated on February 13, 2018.

**Alberta Utilities Commission**

*(original signed by)*

Mark Kolesar  
Vice-Chair

*(original signed by)*

Anne Michaud  
Commission Member

*(original signed by)*

Neil Jamieson  
Commission Member

## Appendix 1 – Proceeding participants

|  |
|--|
| <b>Name of organization (abbreviation)</b><br><b>Company name of counsel or representative</b> |
| ATCO Gas and Pipelines Ltd. (ATCO Gas or AG)   |
| Consumers' Coalition of Alberta (CCA)  |
| Office of the Utilities Consumer Advocate (UCA)<br>Brownlee LLP                                |

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|--|
| Alberta Utilities Commission<br><br>Commission panel<br>M. Kolesar, Vice-Chair<br>A. Michaud, Commission Member<br>N. Jamieson, Commission Member<br><br>Commission staff<br>A. Sabo (Commission counsel)<br>A. Jukov<br>P. Genderka |
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## 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 finds that ATCO Gas has complied with the direction set out at paragraph 75 of Decision 20604-D01-2016 and directs ATCO Gas to continue to confirm that these policies and procedures remain in place. ATCO Gas is further directed to advise the Commission of any modifications to its management policies and procedures in future capital tracker applications and general rates applications. If there are changes to management policies and procedures, a full copy of the amended policies and procedures must be filed with the Commission. .... Paragraph 38
2. For ATCO Gas’s 2017 true-up application, the Commission considers a report on the status of the UPR projects, as part of ATCO Gas’s Transmission Driver Capital Program, to be useful in assessing the prudence of 2017 costs. Accordingly, the Commission directs ATCO Gas in its 2017 true-up application to provide a project update report, similar to Appendix F – Calgary Centre Gate Station Project update submitted in this proceeding, to assist the Commission with evaluating project costs for 2017, in comparison to the total costs expended for individual projects to date. .... Paragraph 116
3. The Commission directs ATCO Gas, in its 2017 capital tracker true-up application, to address whether the driver for any of the previously approved forecast programs or projects, for which ATCO Gas is applying for true-up, has changed. In the event that the driver of the project or program has changed since the forecast project or program was approved, ATCO Gas is directed to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2, as previously directed at paragraph 639 of Decision 3267-D01-2015. .... Paragraph 130
4. In its 2017 capital tracker true-up application, ATCO Gas is directed to continue to provide similar information to that provided in this application with respect to each of the minimum filing requirements, including updated business cases, engineering studies and cost-related information, actual costs by cost category, unit costs, and integrity assessments in sufficient detail to allow an evaluation of the prudence of its incurred costs. ATCO Gas is further directed to file its capital tracker business cases and updates, filed in support of the forecast costs, for the programs and projects which ATCO Gas includes in the 2017 capital tracker true-up. .... Paragraph 138
5. Because there is no requirement for a compliance application to this decision, the Commission directs ATCO Gas to include the 2016 K factor true-up refund amounts approved in this decision in its 2018 PBR rates application..... Paragraph 141

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

([return to text](#))

| Commission approvals and directions  | Decision                       | Decision/proceeding reference |
|--|--------------------------------|-------------------------------|
| The Commission approved a 2013 K factor placeholder amount of \$5.71 million, which is equal to 60 per cent of the K factor amount applied-for in ATCO Gas’s capital tracker application in Proceeding 2131. <sup>1</sup> In the application, ATCO Gas applied for a 2013 K factor amount of \$9.5 million.  | Decision 2013-072 <sup>2</sup> | Paragraph 41                  |
| The Commission approved, on an interim basis, ATCO Gas’s 2013 PBR rates which included the 2013 K factor placeholder amount approved in Decision 2013-072.   | Decision 2013-270 <sup>3</sup> | Paragraph 60                  |
| The Commission approved, on an interim basis, ATCO Gas’s 2014 PBR rates which included a 2014 K factor placeholder amount of \$13.2 million, which is equal to 60 per cent of the K factor amount calculated by ATCO Gas in its 2014 annual PBR rate adjustment filing application. In the application, ATCO Gas calculated a 2014 K factor amount of \$22.0 million.  | Decision 2013-460 <sup>4</sup> | Paragraph 77                  |
| <p>The Commission approved ATCO Gas’s interim rates which included a collection amount of \$8.5 million, which was the difference between 90 per cent of the 2013 K factor amount applied-for by ATCO Gas in Proceeding 3267,<sup>5</sup> in the amount of \$15.1 million, and the K factor placeholder amount of \$5.7 million, approved in Decision 2013-270.</p> <p>The Commission also approved a collection amount of \$10.0 million, which was the difference between 90 per cent of the 2014 K factor amount applied-for by ATCO Gas in Proceeding 3267, in the amount of \$24.3 million, and the K factor placeholder amount of \$13.2 million, approved in Decision 2013-460.</p> | Decision 2014-296 <sup>6</sup> | Paragraph 32                  |

<sup>1</sup> Proceeding 2131, 2012 PBR Capital Tracker Filings.

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

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

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

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

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

| <b>Commission approvals and directions</b>  | <b>Decision</b>                       | <b>Decision/proceeding reference</b> |
|---|---------------------------------------|--------------------------------------|
| The Commission approved, on an interim basis, ATCO Gas's 2015 PBR rates which included a 2015 K factor placeholder amount of \$35.0 million, which is equal to 90 per cent of the K factor amount applied-for in ATCO Gas's capital tracker application in Proceeding 3267. In the application, ATCO Gas applied for a 2015 K factor amount of \$38.9 million.  | Decision 2014-363 <sup>7</sup>        | Paragraph 50                         |
| The Commission approved, on a final basis, the 2013 K factor of \$9.6 million, and on an forecast basis, the 2014 and 2015 K factors of \$19.0 million and \$32.4 million, respectively, and directed ATCO Gas to refund \$9.4 million of the previously collected K factor amounts to customers over the period of September 2015 to December 2015.            | Decision 20385-D01-2015 <sup>8</sup>  | Paragraph 44                         |
| The Commission approved, on an interim basis, ATCO Gas's 2016 PBR rates which included a 2016 K factor placeholder amount of \$42.7 million, which is equal to 90 per cent of the K factor amount applied-for in ATCO Gas's capital tracker application in Proceeding 20604. In the application, ATCO Gas applied for a 2016 K factor amount of \$47.4 million. | Decision 20820-D01-2015 <sup>9</sup>  | Paragraph 59                         |
| The Commission approved the actual 2014 K factor in the amount of \$17.3 million.   | Decision 20604-D01-2016 <sup>10</sup> | Paragraph 456                        |
| The Commission approved on a forecast basis, the 2016 and 2017 K factors of \$47.0 million and \$61.1 million, respectively.  | Decision 21606-D01-2016 <sup>11</sup> | Paragraph 86                         |
| The Commission approved, on an interim basis, ATCO Gas's 2017 PBR rates which collected 100 per cent of the forecast 2017 K factor amount of \$61.1 million.  | Decision 21981-D01-2016 <sup>12</sup> | Paragraph 51                         |
| The Commission approved ATCO Gas's 2015 actual K factor of \$18.1 million and \$9.6 million for the north and south, respectively.  | Decision 21843-D01-2017 <sup>13</sup> | Paragraph 216                        |

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

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

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

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

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

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

<sup>13</sup> Decision 21843-D01-2017: ATCO Gas and Pipelines Ltd., 2015 Capital Tracker True-Up and 2017 Steel Mains Replacement Forecast Update, June 12, 2017.