Decision **21608-D01-2018**

Alberta Utilities Commission

ATCO Gas, a division of ATCO Gas and Pipelines Ltd.

Z Factor Application for Recovery of 2016 Regional Municipality of Wood Buffalo Wildfire Costs

June 5, 2018

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1400, 600 Third Avenue S.W.
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Telephone: 403-592-8845
Fax: 403-592-4406

Website: www.auc.ab.ca

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1 Decision summary

1. This decision provides the Alberta Utilities Commission's determination of an application from ATCO Gas, a division of ATCO Gas and Pipelines Ltd., to recover $11.199 million through a Z factor rate adjustment to compensate it for the costs it incurred as a result of the 2016 Regional Municipality of Wood Buffalo wildfire (wildfire). For the reasons outlined in this decision, the Commission is satisfied that, for 2016, all five of the criteria to qualify for a Z factor rate adjustment have been met. Additionally, the Commission has determined that the characteristics of the wildfire were of a similar nature and magnitude to the nature-related events identified in ATCO Gas's 2009 depreciation study, and has concluded that the wildfire did not give rise to an extraordinary retirement of the destroyed assets. Therefore, the depreciation expense associated with the assets that were replaced will continue to be recovered from ratepayers. The Commission has also directed ATCO Gas to provide specific information and make certain adjustments to the applied-for amount in the compliance filing to this decision.

2 Introduction and procedural summary

2. On May 13, 2016, ATCO Gas filed a letter with the Commission advising that it anticipated filing a Z factor application for the recovery of costs associated with the 2016 wildfire experienced in the Regional Municipality of Wood Buffalo. At the time of the letter, ATCO Gas indicated it had incurred substantial costs to maintain safe operation of its distribution system and to restore service as a result of the wildfire, but had not yet fully analyzed the financial impact, including the cost of rebuilding the distribution system. ATCO Gas stated that it would file a Z factor application with the Commission once it completed its financial analysis of the impacts of the wildfire.[1]

3. In an acknowledgement letter dated May 17, 2016, the Commission registered Proceeding 21608 for the Z factor application, and advised that the Commission would issue the official notice of application after the application was received.[2]

4. On July 28, 2017, ATCO Gas filed its Z factor application with the Commission. ATCO Gas applied for a total Z factor adjustment of $11.199 million for ATCO Gas North. The Z factor adjustment was composed of recovery of $11.079 million in operations and maintenance (O&M)

[1] Exhibit 21608-X0001, ATCO Gas Z factor notification letter, May 13, 2016.
[2] Exhibit 21608-X0003, Commission letter of acknowledgement, May 17, 2016.

costs and lost revenue, and $120,000 in revenue requirement amounts associated with capital asset replacements of $2.2 million.[3]

5. The Commission issued notice of the application on July 31, 2017. The notice required interested parties to submit a statement of intent to participate (SIP) by August 11, 2017.[4] The Commission received SIPs from the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA). The CCA indicated an intention to file information requests (IRs) and review responses prior to commenting on the need for further process. The UCA submitted that it expected to be actively involved in testing the application.

6. In a letter dated August 15, 2017, the Commission advised it would be considering the application by way of a *full written process* and established a process schedule for the application.[5]

7. On September 20, 2017, the UCA filed a motion to conjoin this proceeding with ATCO Electric Ltd.'s Z factor application, also relating to the 2016 wildfire experienced in the Regional Municipality of Wood Buffalo (Proceeding 21609).[6] In its ruling dated October 13, 2017, the Commission denied the UCA's request.[7]

8. The main process steps, as amended throughout the course of this proceeding, were as set out in the table below:

Process step	**Date**
IRs to ATCO Gas	September 19, 2017
IR responses from ATCO Gas	November 1, 2017
Intervener evidence	December 20, 2017
IRs to interveners	January 10, 2018
IR responses from interveners	January 24, 2018
Rebuttal evidence	February 7, 2018
Argument	February 21, 2018
Reply argument	March 7, 2018
Supplemental IR to ATCO Gas	May 17, 2018
Supplemental IR response from ATCO Gas	May 24, 2018

9. The record of this proceeding closed on May 24, 2018, following receipt of ATCO Gas's supplemental IR response.

[3] Exhibit 21608-X0004, application.
[4] Exhibit 21608-X0007, notice of application.
[5] Exhibit 21608-X0010, AUC letter – Process and schedule, August 15, 2017.
[6] Exhibit 21608-X0018, UCA motion to conjoin proceedings.
[7] Exhibit 21608-X0022, AUC letter – Commission ruling on the motion by the UCA, October 13, 2017.

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

3 Z factor component of the PBR plan

11. On September 12, 2012, the Commission issued Decision 2012-237,[8] approving performance-based regulation (PBR)[9] plans for the distribution utility services of certain Alberta electric and gas companies, including ATCO Gas. The PBR plans were approved for a five-year term commencing January 1, 2013, and included provisions for Z factors. The Commission's approach regarding Z factors is set out in Section 7.2 of Decision 2012-237. On February 6, 2017, the Commission issued an errata to Decision 20414-D01-2016,[10] approving PBR plans for the same Alberta electric and gas companies and ENMAX Power Corporation, for a five-year term commencing January 1, 2018. In that decision, the Commission confirmed that the Z factor approach was to remain unchanged from that established in Decision 2012-237.

12. The PBR framework provides a formula mechanism for the annual adjustment of rates for those companies under an approved PBR plan. In general, rates are adjusted annually by means of an indexing mechanism that tracks the rate of inflation (I) relevant to the prices of inputs the companies use, less a productivity offset (X) to reflect the productivity improvements the company can be expected to achieve during the PBR plan period.[11]

13. Establishing prices in this way during the term of a PBR plan creates stronger incentives for the companies to improve their efficiency because they are able to retain the increased profits generated by those cost reductions longer than they would under cost-of-service regulation. At the same time, under a PBR regulatory framework, customers automatically share in the expected productivity gains because they are built into rates through the X factor regardless of the actual performance of the companies.[12]

14. However, the PBR regulatory framework recognizes that in competitive markets, exogenous factors that affect only the industry in question, such as an increase in taxes, would be passed through to customers by that industry in its market prices. PBR plans typically include a Z factor to deal with significant events outside the companies' control that are specific to the industry and would not be reflected through the I factor. The Z factor can also be used to account for cost changes caused by unique company-specific events (such as floods or ice storms) outside the company's control and that are not reflected in the inflation factor.[13]

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

[9] PBR replaces traditional cost-of-service regulation as the annual rate-setting mechanism for distribution utility rates.

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

[11] Decision 2012-237, paragraph 11.

[12] Decision 2012-237, paragraph 12.

[13] Decision 2012-237, paragraph 13.

15. In Decision 2012-237, the Commission established the following criteria to be applied when evaluating whether the impact of an exogenous event qualifies for Z factor treatment:

(1) The impact must be attributable to some event outside management's control.
(2) The impact of the event must be material. It must have a significant influence on the operation of the company otherwise the impact should be expensed or recognized as income, in the normal course of business.
(3) The impact of the event should not have a significant influence on the inflation factor in the PBR formulas.
(4) All costs claimed as an exogenous adjustment must be prudently incurred.
(5) The impact of the event was unforeseen.[14]

16. All of the above criteria must be met in order for an event to qualify for a Z factor rate adjustment.[15]

17. In addition, the Commission clarified that the exogenous event which may qualify for a Z factor may include a company-specific event or impact, as this is consistent with providing a company with a reasonable opportunity to recover its prudently-incurred costs.[16] Further, the Commission held that "… Z factors should be symmetrical in that they should apply to exogenous events with both additional costs that the company needs to recover and also reductions to costs that need to be refunded to customers…."[17]

18. Further, in Decision 2738-D01-2016,[18] the Commission determined that the Z factor materiality threshold should be applied on an annual basis.[19]

19. Regarding the process by which Z factor adjustments would be considered, the Commission directed utilities to notify it of all proposed adjustments as soon as possible after the exogenous event is identified, and to submit Z factor applications as soon as possible after the associated cost of the exogenous event has been incurred or the savings have been realized.[20] Also in Decision 2012-237, the Commission held that the nature of the required Z factor rate adjustment would be considered by the Commission on a case-by-case basis.[21]

20. The Commission has applied the principles and factors set out in Decision 2012-237 and Decision 2738-D01-2016 in its evaluation of ATCO Gas's application for a Z factor.

4 Assessment against the five Z factor criteria

21. As stated earlier, in order to satisfy the criteria for a Z factor, the impact of the event, in this case the wildfire, must be attributable to some event outside management's control, must be

14 Decision 2012-237, paragraph 524. Note: Criteria 1 to 4 for a Z factor were adopted from Decision 2009-035: ENMAX Power Corporation, 2007-2016 Formula Based Ratemaking, Proceeding 12, Application 1550487-1, March 25, 2009, paragraph 247. Criterion 5 was included in the Z factor criteria in Decision 2012-237.
15 Decision 2012-237, paragraph 525.
16 Decision 2012-237, paragraph 527.
17 Decision 2012-237, paragraph 528.
18 Decision 2738-D01-2016: ATCO Gas and Pipelines Ltd., Z Factor Application for Recovery of 2013 Southern Alberta Flood Costs, Proceeding 2738, March 16, 2016.
19 Decision 2738-D01-2016, paragraph 63.
20 Decision 2012-237, paragraph 540.
21 Decision 2012-237, paragraph 543.

material, and must not have a significant influence on the inflation factor in the PBR formula. In addition, all costs claimed as an exogenous adjustment must be prudently incurred and the impact of the event must be unforeseen.

22. Section 4.1 deals with the first and fifth Z factor criteria; that is, the impact must be attributable to some event outside management’s control, and the impact of the event was unforeseen. Section 4.2 assesses whether the costs claimed as an exogenous adjustment, namely capital expenditures, O&M costs and lost revenue were prudently incurred. Section 4.3 deals with materiality. In Section 4.4 the Commission assesses whether the impact of the event had a significant influence on the inflation factor in the PBR formula.

23. Section 4.2.1.1 deals with the regulatory treatment of assets destroyed in the wildfires, considers if the event can be said to be unforeseen from a depreciation study perspective and consequently whether the retirement of the ATCO Gas assets destroyed in the wildfire constitutes an ordinary course retirement or an extraordinary retirement.

4.1 First and fifth criteria

24. Section 4.1 deals with the first and fifth Z factor criteria; that is, the impact must be attributable to some event outside management’s control, and the impact of the event was unforeseen.

25. In May 2016, a wildfire in the Regional Municipality of Wood Buffalo reached Fort McMurray, resulting in a mandatory evacuation of the entire community from May 3, 2016 to June 4, 2016. The wildfire destroyed homes, businesses and critical infrastructure in Fort McMurray, and impacted many major industrial operations and forested areas in northeastern Alberta.[22] Evacuated residents were only permitted to return once certain re-entry conditions were met, including the availability of essential services such as gas utility service.[23]

26. The Commission recognizes that the specific timing and location of the wildfire and its impact to the Fort McMurray area had an impact which was unforeseen and outside of management’s control, thus satisfying the first and the fifth criteria for Z factor treatment.

4.2 Fourth criterion

27. In this section, the Commission assesses whether the costs claimed as an exogenous adjustment, namely capital expenditures, O&M costs and lost revenue were prudently incurred. ATCO Gas’s applied-for revenue requirement related to capital additions, O&M expenditures and lost revenue, included in this Z factor application, is set out in the table below.

Table 1. Components of the proposed exogenous adjustment

	($ million)
Revenue requirement related to capital additions	0.12
O&M expenditures	9.21
Lost revenue	1.87
Total	**11.20**

[22] Exhibit 21608-X0004, application, paragraphs 3 and 23.
[23] Exhibit 21608-X0004, application, paragraph 13.

4.2.1 Capital expenditures

28. There are two distinct types of capital costs incurred as the result of the wildfires. The first is the loss associated with the damage to the destroyed assets that had to be physically retired but still had a remaining net book value of $1.2 million within a mass property account.[24] This cost is not being recovered through the Z factor application and is considered in Section 4.2.1.1. The second is the $2.2 million for the cost of installation of the replacement assets, resulting in the revenue requirement of $0.12 million in 2016, as shown in Table 1. This cost is included in the Z factor application and considered in Section 4.2.1.2.

4.2.1.1 Regulatory treatment of assets destroyed in the wildfire

29. This section deals with the regulatory treatment of assets destroyed in the wildfires, considers if the event can be said to be unforeseen from a depreciation study perspective and consequently, whether the retirement of the ATCO Gas assets destroyed in the wildfire constitutes an ordinary course retirement or an extraordinary retirement.

30. The wildfire resulted in a loss associated with the damage to the destroyed assets that had to be physically retired but still had a notional remaining net book value of $1.2 million within a mass property account.[25] In the utility asset disposition (UAD) Decision 2013-417,[26] the Commission determined that assets that are no longer used to provide utility service as a result of extraordinary retirement as described in that decision must be removed from rate base when they cease to provide service, regardless of whether they have been fully depreciated. As a result of the above findings, the Commission must consider in the present decision the nature of the loss of distribution assets from the wildfires and whether these retirements should be considered extraordinary as contemplated by the Commission in the UAD decision.

31. More specifically, the UAD decision established that ordinary retirements are for the account of customers and effected through a process described as follows:

> 294. To the extent that a group of assets in a mass property account retires, on average, at a faster or slower rate than contemplated, or the actual net salvage percentage differs from the contemplated percentage, these differences are calculated at the time of the next depreciation study and the difference is amortized over the remaining life of the assets that continue to provide utility service and which continue to be accounted for in the mass property account.
>
> 295. Under this method, no gains or losses are considered to occur on the retirement and/or disposal of individual assets in the ordinary course of business because they are retired or disposed of at the end of their useful lives.[27]

32. However, extraordinary retirements would be for the account of the utility, which is described in the UAD decision as follows:

> 304. … The UCAGU [Uniform Classification of Accounts for Gas Utilities] also makes provision for “extraordinary retirements” defined as retirements “from causes not

24 Exhibit 21608-X0030, AG-UCA-2017SEP19-019 (c).
25 Exhibit 21608-X0030, AG-UCA-2017SEP19-019 (c).
26 Decision 2013-417: Utility Asset Disposition, Proceeding 20, Application 1566373-1, November 26, 2013.
27 Decision 2013-417, paragraphs 294-295.

> reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions." Under-recovery or over-recovery of capital investment on ordinary retirements are for the account of customers under the amortization of reserve differences described above. Under-recovery or over-recovery of capital investment on extraordinary retirements (as is the case with assets disposed of outside of the ordinary course of business or moved to a non-utility account) are for the account of the utility. The treatment of retirements for electric utilities is to the same effect under the USA [Uniform System of Accounts] Electric Plant Instructions.[28]

33. ATCO Gas submitted that the retirement of assets from service due to the wildfire occurred in the ordinary course of business.[29] ATCO Gas provided evidence similar to that provided in its Southern Alberta floods Z factor application, stating it confirmed that the retirements caused by the wildfire are not considered extraordinary. Specifically, ATCO Gas's 2009 depreciation study (which was ATCO Gas's last Commission-approved depreciation study) included retirements from all nature-related events, including those created by the 1987 tornado and 2005 flood. Mr. Kennedy, an expert witness for ATCO Gas, explained in his evidence that had the retirements from the 2016 wildfire occurred in 2009, they would not have affected the depreciation results for both the actuarial observed life table and resulting observed life table curve used in the 2009 depreciation study. Accordingly, the results of this analysis indicate that, if the impact of the 2016 wildfire been considered in ATCO Gas's previous depreciation study, it would not have had an effect on the depreciation parameters.[30] In Mr. Kennedy's view, this confirmed that the retirements associated with the wildfire fall within the range of expected retirement activity for that vintage of assets, and therefore were contemplated in the 2009 depreciation study.[31] ATCO Gas also provided the historical costs and accumulated depreciation of the retired assets, and observed that the aggregated effect of the wildfire retirements on the accumulated depreciation accounts amount to only four-tenths of one per cent.[32]

34. The CCA expressed concern that ATCO Gas was being compensated for the retirements through depreciation rates in its PBR going-in rates, and that replacements were being funded in whole or in part by the depreciation and return elements of rates.[33] Mr. Thygesen, in his evidence for the CCA, submitted that ATCO Gas has previously recovered the depreciation expense for the replacement of capital additions related to the wildfire in its PBR rates. He submitted that since the wildfire type of retirements were contemplated in ATCO Gas's last depreciation study, ATCO Gas has already been compensated through higher deprecation rates due to "all nature related events" as compared to lower rates that would have existed if "all nature related events" had been excluded.[34] Mr. Thygesen concluded that since the retirements were forecast and the recovery of capital via the depreciation rate was within the ordinary scope of business, the replacements costs were forecast as well and were funded by depreciation and I factor increases.[35]

28 Decision 2013-417, paragraph 304.
29 Exhibit 21608-X0004, application, paragraph 79.
30 Exhibit 21608-X0004, application, Appendix 2, Q/A6.
31 Exhibit 21608-X0004, application, paragraph 84.
32 Exhibit 21608-X0004, application, paragraph 82, Table 6.
33 Exhibit 21608-X0063, CCA argument, paragraph 31.
34 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraph 15.
35 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraph 26.

35. Further, Mr. Thygesen submitted that the wildfire failed the criteria for a Z factor, and was not unforeseen. Specifically, Mr. Thygesen stated that if the evidence of ATCO Gas and Mr. Kennedy showed that the wildfire had no noticeable impact on retirements, and that the 2009 depreciation study contemplated the wildfire impacts, then the impact of the retirements and subsequent replacements was foreseen, and the difference between what was forecast and actually occurred was not material. As a result, Mr. Thygesen argued that this failed the Commission criteria of *"(5) The impact of the event was unforeseen"* and *"(2) The impact of the event must be material"* (emphasis in original). Mr. Thygesen concluded that compensating ATCO Gas for events that have been forecast and included in rates would result in double-counting, as the funding for such forecast replacements is already included in PBR rates.[36]

36. In its rebuttal evidence, ATCO Gas disagreed with the CCA's submissions, noting that the original costs of the retired assets are removed from the capital programs where the original costs were recorded and are therefore not included in the Z factor application. ATCO Gas stated that retirements do not impact the calculation of the Z factor adjustment in any way, and were only included in this Z factor application in light of the Commission's interest in them in the Southern Alberta floods proceeding.[37] ATCO Gas also disagreed with the assertion that replacements are funded by depreciation, stating that although such retirements were contemplated in the 2009 depreciation study, the "contemplation of retirements due to forces of nature does not provide ATCO Gas with the additional funding required to fund the replacement assets as implied by the CCA."[38] ATCO Gas referenced Mr. Kennedy's rebuttal evidence, in which he stated that depreciation is related to the investment of current assets, and not used for the purposes of funding replacement assets.[39]

37. ATCO Gas also disagreed with the CCA's assertion that since the wildfire, as an ordinary retirement event, was contemplated in the most recent Commission approved depreciation study, the capital additions are expected and therefore do not satisfy the Z factor's fifth criterion. ATCO Gas submitted that whether an event meets the unforeseen impact criteria for Z factor treatment and whether or not it is contemplated in past depreciation studies are two separate things,[40] as explained by the Commission in Decision 2738-D01-2016:

> 94. Lastly, in response to the argument that an ordinary retirement event for the purposes of depreciation does not meet the unforeseen impact criteria for a Z factor, the Commission finds that these are two distinct matters. A depreciation study is developed to predict retirements of a group of assets over their life on the basis of past retirement events. That past events have been incorporated into depreciation studies does not negate the impact of the actual event on the operations of the company. While a storm may not be an unusual event, the impact of a particular event could very well be unforeseen and if that impact is sufficiently material, a Z factor may be warranted.

36 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraphs 25-38.
37 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 28.
38 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 33.
39 Exhibit 21608-X0060, Mr. Kennedy rebuttal evidence, A6.
40 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 36.

38. In its argument, the CCA reiterated that replacements are funded in whole or in part by depreciation and return portion of rates.[41] The CCA proposed that ATCO Gas should be directed to provide a notional accounting test or reconciliation to demonstrate that there is no double-counting of benefits as between the Z factor and K factor and non-capital tracker programs.[42]

39. In its reply argument, ATCO Gas confirmed that it isolates programs like the wildfire in both the capital tracker accounting test, as well as the Z factor application revenue requirement to ensure double-counting does not occur. It also confirmed that its approach is consistent with the 2013 Southern Alberta floods decision and that, in this application, it complied with all directions set out in Decision 2012-237, as well as provided the same information it did in the Southern Alberta floods proceeding.[43] ATCO Gas also referred to the Commission's findings in Decision 2013-417 and the *Public Utility Depreciation Practices* published by the Federal Energy Regulatory Commission as support for the finding that depreciation expense provides the recovery of the investment in current assets, and that depreciation studies do not take into consideration the cost of asset replacement.[44]

40. In response to a supplemental IR from the Commission, ATCO Gas provided the history of losses due to natural disasters or other force majeure events similar to the type or nature associated with the wildfire, as shown below:[45]

Table 2. ATCO Gas's history of losses similar in nature to the wildfire[46]

Event	Replacement costs	Year
Southern Alberta floods	$2,066,561	2005
Tornado	$253,345	1987
Southern Alberta floods	$5,933,000	2013

41. The UCA did not comment on the issue of depreciation in its argument or reply argument.

Commission findings

42. The Commission notes that no party in this proceeding disputed that, as a result of the wildfire, the destroyed assets were retired in the ordinary course of business.

43. In Decision 2014-297 (Errata), in its assessment of whether the fire in Slave Lake was contemplated in a previous depreciation study, the Commission stated:

> 66. … it is the characteristics of the event that are relevant to the determination of whether the event had been contemplated or anticipated by a prior depreciation study. If the characteristics of the Slave Lake fires event are sufficiently different to distinguish

[41] Exhibit 21608-X0063, CCA argument, paragraph 31.
[42] Exhibit 21608-X0063, CCA argument, paragraph 50.
[43] Exhibit 21608-X0064, ATCO Gas reply argument, paragraphs 31-32.
[44] Exhibit 21608-X0064, ATCO Gas reply argument, paragraphs 34-35.
[45] Exhibit 21608-X0069, AG-AUC-2018MAY17-001.
[46] Exhibit 21608-X0069, AG-AUC-2018MAY17-001.

> the Slave Lake fires from the events considered in the previous depreciation study such that the characteristics of the Slave Lake fires cannot be said to have been reasonably contemplated or anticipated in the determination of the depreciation parameters in that study, then the Commission would consider the event to give rise to an extraordinary retirement. [citation omitted][47]

44. The facts of this case are distinguishable from those in the Slave Lake decision that led to the Commission finding that the "fires could not reasonably have been anticipated or contemplated in the determination of the parameters used in the previous depreciation study dated as at December 31, 2008. Accordingly, for regulatory purposes the Slave Lake fires give rise to an extraordinary retirement of the destroyed assets."[48] In the Slave Lake decision, the Commission reviewed the history of losses experienced by ATCO Electric over a 10-year period and determined that the nature of these past losses, which generally involved costs in the range of $1 million to $2 million, were sufficiently different from the Slave Lake region fire, which required replacement costs of assets of $23.7 million.

45. In this proceeding, the Commission has considered the information provided by ATCO Gas in Table 2 above on the history of losses due to natural disasters or other force majeure events similar to the type or nature associated with the wildfire. In this regard, the Commission excluded the 2013 flood since that event occurred after the completion of the 2009 depreciation study.

46. The Commission observes that the replacement costs of the 2016 wildfire were $2.2 million, which are similar to the replacement costs of the 2005 flood.

47. Relying on its review of this history of losses and of the entire record of this proceeding, the Commission finds that the characteristics of the 2016 wildfire event are of a similar nature to the 2005 flood and other nature-related events that were incorporated into the 2009 depreciation study. Relying on these findings of fact, the Commission concludes that the wildfire does not give rise to an extraordinary retirement of the destroyed assets. Accordingly, the destroyed assets should be treated as an ordinary retirement and accounted for accordingly.

48. Regarding the CCA's submission that an ordinary retirement event for the purposes of depreciation means that the unforeseen impact criterion in the Z factor test is not met, the Commission continues to be of the view that its reasoning in paragraph 94 of Decision 27388-D01-2016 applies, and rejects this argument. The Commission considers that for depreciation purposes an event may be foreseen in the depreciation study, but that the actual occurrence of a specific event at a particular time and place would not be foreseen for purposes of the Z factor criteria.

49. The Commission considers the CCA's submission on materiality in Section 4.3 of this decision.

50. The Commission also finds that the evidence provided by ATCO Gas and Mr. Kennedy supports the finding that the depreciation expense provides the recovery of the investment of current assets and is not designed to take into consideration the cost of replacement assets. As a

[47] Decision 2014-297 (Errata): ATCO Electric Ltd., 2012 Distribution Deferral Accounts and Annual Filing for Adjustment Balances, Proceeding 2682, January 8, 2015.
[48] Decision 2014-297 (Errata), paragraph 65.

result, the Commission finds that there is no double-counting of benefits as between the Z factor and K factor and non-capital tracker programs.

51. ATCO Gas is directed, in the compliance filing to this decision, to provide all accounting entries reflecting the retirement of the assets destroyed by the wildfire. ATCO Gas is also directed to indicate how the remaining net book value of the destroyed assets will be recovered from customers.

4.2.1.2 UAD and prudence review

52. ATCO Gas stated that it incurred $2.2 million in capital expenditures to repair, replace or alter mains and pressure regulating stations that were damaged in the wildfire.[49] The capital additions on which this portion of the applied-for revenue requirement is based are equal to the actual capital expenditures, as the construction work in progress amount is zero.[50] The costs incurred for related projects are summarized in the table below.

Table 3. Mains and stations project costs

Project	Capital expenditures ($000)
Mains projects	
Repair of fire damaged areas	1,249
Beacon Hill North Replacement	161
Other mains projects	78
Mains projects total	**1,488**
Pressure regulation station projects	
Fort McMurray Gate Station #1 Replacement	659
Saprae Creek Gate Station Repair	25
Pressure regulation station projects total	**683**
Total capital expenditures	**2,171**

Source: Exhibit 21608-X0004, application, paragraph 65, Table 4; paragraph 73, Table 5.

53. ATCO Gas explained that the work required to repair the mains in fire-damaged areas consisted of testing that the pipe was airtight before removing water and debris from the pipe, which at some locations required excavations, reconnecting and re-pressurizing the system, purging air from the system and testing for leaks.[51]

54. The Beacon Hill North Replacement Project consisted of the complete replacement of gas mains in an area of the Beacon Hill neighbourhood. ATCO Gas submitted that replacing the mains in the Beacon Hill North neighbourhood was more cost-effective than repairing the damage.[52] In response to an IR from the UCA, ATCO Gas discovered an error in material

49 Exhibit 21608-X0004, application, paragraphs 62-63.
50 Exhibit 21608-X0005, Appendix 1 - Z Factor Revenue Requirement Calculations, Schedule Mid-Year Rate Base, Row 7, Column G.
51 Exhibit 21608-X0004, application, paragraphs 67-69.
52 Exhibit 21608-X0004, application, paragraph 71.

charges of $6,073 associated with this project, and noted that the error was immaterial to the calculation of the revenue requirement, and would be corrected in the compliance filing.[53]

55. Two pressure regulating stations, namely the Fort McMurray and Saprae Creek Gate Stations, were impacted by the wildfire; one was completely destroyed and therefore replaced, and the other was damaged by radiant heat and repaired.[54]

56. ATCO Gas deducted insurance proceeds relating to the two gate stations in the amount of $576,000 from its capital costs and confirmed that it does not expect any future government contributions, further insurance proceeds, or any other form of compensation from other sources related to its 2016 costs claimed in the application. It also identified a change in its insurance deductible, which resulted in updated insurance proceeds of $639,000.[55]

57. In response to an IR, ATCO Gas provided maps showing customer outages as of the end of May 2016 in the Fort McMurray neighbourhoods. The maps identified buildings that were destroyed by the fire with a blue dot, restricted-use buildings with a yellow dot and unsafe buildings with a red dot.[56] The UCA provided the following table in its evidence submission based on its examination of the maps. The UCA concluded that it was clear from the maps that some areas were completely destroyed and accordingly no utility service was being provided in these areas, and therefore the related assets should be removed from rate base.[57]

[53] Exhibit 21608-X0030, AG-UCA-2017SEP19-009(a).
[54] Exhibit 21608-X0004, application, paragraph 78.
[55] Exhibit 21608-X0030, AG-UCA-2017SEP19-006(a) and (d).
[56] Exhibit 21608-X0048, AG-UCA-2017SEP19-003, Attachment 1.
[57] Exhibit 21608-X0050, UCA evidence, Q/A14.

Table 4. UCA count of sites in destroyed areas

Neighbourhood area	Blue (destroyed)	Yellow (restricted use)	Red (unsafe)	No mark (estimated)
Albion Dr., Athabasca Ave. and Abasand Dr.	12	0	0	0
North East of Athabasca Avenue and Abasand Dr. (Exclude Aime Crt.)	333	1	0	9
Abasand Dr. south of Athabasca Ave. (Exclude Alpine Crt)	228	6	8	0
Area sub-total	**573**	**7**	**8**	**9**
Tolen Dr. Area - Primpose, Parview, Paradise	52	2	0	17
East of Howard Pew Park	182	3	0	12
Beacon Hill Dr. Area – West of Beaconwood Gate	206	2	3	51
East of Beaconwood Rd.	174	0	0	0
Centennial Park Campground	41	1	0	0
Area sub-total	**655**	**8**	**3**	**80**
Warren Way Area near Woodlawn Cemetery Webb Dr. south to green space protruding out Excluding [*sic*]	137	0	0	12
Prospective Dr. (Exclude on Gravelstone and Exclude on Sandstone and Prospect Bay)	284	0	0	0
Total	**1649**	**15**	**11**	**101**

58. ATCO Gas refuted the UCA’s conclusion that no utility service was being provided to fire-damaged areas. It explained that mains in areas with inactive services needed to be repaired to provide service to customers further along the line and repairing mains shortly after the wildfire in areas without any active services would decrease costs over time. For example, mains in the Tolen Drive area were repaired to take advantage of a joint trench in a congested area, and mains along Prospective Drive were repaired to supply customers further north. Mains could have been isolated from the system and repaired at a later date; however, this approach would have required multiple excavations, multiple site visits and delayed service restoration for returning customers.[58] ATCO Gas submitted that the replaced mains in the areas identified by the UCA in Table 3 were required to “ensure the safety, integrity, and service quality of the system in a way that was least detrimental to customers” and that “customers have already started to return to these areas, these assets are providing utility service or will be in the near future.”[59] Further, it pointed out that it did not replace mains in 2016 in areas where utility service was not

[58] Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraphs 39-42.
[59] Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 49.

required, namely in the Beacon Hill Drive, Athabasca Avenue, Abasand Drive, and Warren Way areas serving condominiums.[60]

59. Given ATCO Gas's evidence, the UCA accepted the inclusion in rate base of those assets related to repairs to mains made to supply customers further along the line.[61] The UCA argued, however, that the repair and replacement of mains that supply areas where all buildings were largely destroyed by the fire, uninhabitable or vacant, should not have taken place, and the related assets should be removed from rate base.[62]

60. The UCA argued that ATCO Gas did not demonstrate that customers would be returning in the near future and that installing the mains shortly after the wildfire would be more cost-effective than waiting until certain neighbourhoods were rebuilt. Therefore, the UCA submitted that these assets are not used or required to be used to provide utility service and should be removed from rate base.[63] In response, ATCO Gas noted that Decision 2013-417, the UAD decision, states that assets should be included in rate base when "they continue to be used or [are] required to be used for utility service."[64] ATCO Gas submitted that it must ensure that customers are supplied with gas service within a reasonable amount of time of returning to the affected areas and therefore replacing mains at a later date would contravene its franchise agreement[65] with the Rural Municipality of Wood Buffalo.[66] It provided an example whereby it is common practice for it to install mains in new subdivisions, months prior to providing service to a customer.[67]

Commission findings

61. Section 37 of the *Gas Utilities Act* describes the assets that determine a gas utility's rate base as those assets that are "used or required to be used to provide service to the public":

> 37(1) In fixing just and reasonable rates, tolls or charges, or schedules of them, to be imposed, observed and followed afterwards by an owner of a gas utility, the Commission shall determine a rate base for the property of the owner of the gas utility <u>used or required to be used to provide service to the public</u> within Alberta and on determining a rate base it shall fix a fair return on the rate base. [emphasis added]

62. In Decision 2013-417, the UAD decision, the Commission reviewed the interpretation placed on the meaning of "used or required to be used" by the courts, noting the following:

> 102. The Commission considers the following principles have been established by *Stores Block* and subsequent court and AUC decisions:
>
> …

60 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 48.
61 Exhibit 21608-X0062, UCA argument, paragraph 36.
62 Exhibit 21608-X0062, UCA argument, paragraph 40.
63 Exhibit 21608-X0062, UCA argument, paragraphs 36-40.
64 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 25.
65 Section 20 of its franchise agreement states: "the Company [ATCO Gas] shall use its best efforts on a commercially reasonable basis to avoid and minimize any interruption, reduction or discontinuance of gas distribution service to any consumer." Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 43.
66 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 20.
67 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 25.

(j) The words "used or required to be used" in Section 37 of the *Gas Utilities Act* "are intended to identify assets that are presently used, are reasonably used, and are likely to be used in the future to provide services. Specifically, the past or historical use of assets will not permit their inclusion in the rate base unless they continue to be used in the system." (*Carbon*, paragraph 23)

(k) The "only reasonable reading of s. 37 is that the assets that are 'used or required to be used' to provide service are only those used in an operational sense." (*Carbon*, paragraph 25; *Salt Caverns*, paragraph 56)

…

(s) The effective date for removal of a gas utility asset from rate base and customer rates is the earlier of: (i) the date that the utility advises the Commission that the asset is no longer used or required to be used; or (ii) the date the Commission determines that an asset no longer has an operational purpose and is no longer used or required to be used to provide service to the public. (*Salt Caverns*, paragraphs 28, 31, 51, 52, 53 and 56; Decision 2009-253,[[68]] paragraph 54; *Calgary Leave*, paragraphs 23 and 25; Decision 2012-068,[[69]] paragraphs 146 and 147)

[citation omitted in part and emphasis added]

63. The Commission has found that the wildfire event resulted in an ordinary retirement of the destroyed assets and should be accounted for accordingly.

64. Regarding mains, the Commission is satisfied by ATCO Gas's explanations regarding the reasons why it completed repairs and replacements of mains adjacent to inactive sites. From an operational sense, for those mains that supplied customers further along the line, the Commission finds persuasive ATCO Gas's explanation that "While there may not be active services along some sections of a particular main, the full length of main needed to be repaired in order to maintain safe and reliable service to customers further along the line."[70] The Commission further acknowledges that evacuated residents were only permitted to return once certain re-entry conditions were met, including the availability of essential services such as gas utility service.[71] The Commission accepts ATCO Gas's submission that it would not have known when and if customers would return to the affected areas, and that it expected customers to return intermittently.[72] Therefore, it was incumbent on ATCO Gas to meet its obligation to supply service to active sites located downstream of destroyed areas, as well as to inactive sites to ensure facilities were in place to provide gas utility service to customers when they returned.

68 Decision 2009-253: ATCO Gas South, Review and Variance Proceeding Of Decision 2009-004 and Decision 2009-067 (Removal of Carbon Related Assets from Utility Service), Proceeding 281, Application 1605365-1, December 16, 2009.

69 Decision 2012-068: ATCO Pipelines, ATCO Gas and Pipelines Ltd., CU Inc., Canadian Utilities Limited, Disposition of Surplus Salt Cavern Assets in the Fort Saskatchewan Area, Proceeding 1196, Application 1607245-1, March 16, 2012.

70 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 39.

71 Exhibit 21608-X0004, application, paragraph 13.

72 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 29.

65. Accordingly, the Commission finds that, for 2016, the replacement assets including stations and mains were presently used, reasonably used and likely to be used in the future to provide service. However, the Commission does not have sufficient evidence on the record of this proceeding to determine whether ATCO Gas would have known when and if customers would return to the affected areas in 2017, and therefore is not making any determination as to whether all the mains were used or required to be used after 2016.

66. The Commission has reviewed the capital costs incurred by ATCO Gas in response to this event and given the above, finds the scope of the work performed, the timing of the repair and replacement activity and the quantum of the capital costs to be prudent. However, during the proceeding, ATCO Gas identified a change in its insurance deductible and an error in capital expenditures associated with the Beacon Hill North Replacement Project. Accordingly, ATCO Gas is directed to reflect the updated insurance proceeds of $639,000 and the error in material costs of $6,073 in the compliance filing to this decision, and to recalculate its capital costs incurred and resulting Z factor revenue requirement for 2016.

67. Given the uncertainty of whether all of the repaired and replaced mains and related assets continue to be used or required to be used after 2016, the Commission considers a verification of the continued use of the mains is warranted. Therefore, ATCO Gas is directed to include the following submissions in its compliance filing to this decision:

(i) whether all or any of the mains and related assets that the Commission found were used or required to be used in 2016 continue to be used or required to be used after 2016

(ii) a map showing the locations of the mains or portions thereof, and related assets, that do not supply any customers

(iii) the net book value of mains or portions thereof, and related assets, that do not supply any customers

(iv) for the mains or portions thereof, and related assets, that do not supply any customers, and ATCO Gas submits are required to be used:

(a) the month and year that ATCO Gas expects customers to connect to the main

(b) the basis of the forecast for the aforementioned month and year that ATCO Gas expects customers to connect to the main

(v) with respect to the mains and related assets that Commission found were used or required to be used in 2016,whether UAD principles apply after 2016 so as exclude all or a portion of these mains and related assets from rate base after 2016

(vi) if all or any of the mains and related assets that the Commission found were used or required to be used in 2016 are no longer used or required to be used in subsequent years, what adjustments to rate base are required, if any and when such adjustments would be made.

4.2.2 O&M costs

68. ATCO Gas stated that in 2016 it incurred incremental O&M costs and lost revenue of $11.1 million as a result of the wildfire.[73] The table below sets out the costs incurred by month for the activities identified by ATCO Gas in its application. For clarity, while lost revenue is included in the table below, the Commission's findings with respect to lost revenue are made in Section 4.2.3 of this decision.

Table 5. 2016 Wood Buffalo wildfires O&M costs and lost revenue

	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
					$000				
Emergency response/ system restoration	1,813	5,225	355	394	39	-86	3	104	**7,847**
Contracted emergency gas supply	837	20	0	0	0	0	0	0	**856**
Dispatch	7	101	0	0	0	0	0	0	**108**
Customer care and billing	32	114	18	2	3	2	0	0	**171**
Information technology	78	133	12	4	2	1			**230**
Total O&M costs	**2,767**	**5,593**	**385**	**400**	**44**	**-83**	**3**	**104**	**9,213**
Lost revenue									**1,867**
Total	**2,767**	**5,593**	**385**	**400**	**44**	**-83**	**3**	**104**	**11,079**

Source: Exhibit 21608-X0030, AG-UCA-2017SEP19-001.

69. ATCO Gas explained that the work carried out for emergency response and system restoration included an evaluation of the integrity of the distribution system, a multi-step process to re-pressurize the distribution system to normal operating pressures, relighting customer appliances to restore services and providing emergency gas supplies to critical customers, such as fire halls and hospitals.[74] The contracted emergency gas supply activity costs were incremental and based on the services used to supply gas to support emergency responders before permanent sources were made available.[75]

70. ATCO Gas explained that additional dispatch staff were required to support existing dispatch employees during the short period of time when most customers were returning to their homes and requiring their services to be re-established.[76]

71. ATCO Gas explained that it incurred additional customer care and billing costs to manage the higher call volumes and to process billing adjustments, as a result of the impact of the wildfire on a large number of customers.[77] Lastly, incremental information technology (IT) services costs were incurred to provide IT support to Fort McMurray staff and to implement and test unique IT processes to support various activities that were required as a result of the wildfire.[78]

[73] Exhibit 21608-X0004, application, paragraph 28.
[74] Exhibit 21608-X0004, application, paragraph 29.
[75] Exhibit 21608-X0004, application, paragraph 48; Exhibit 21608-X0030, AG-UCA-2017SEP19-001(b).
[76] Exhibit 21608-X0004, application, paragraphs 52-53.
[77] Exhibit 21608-X0004, application, paragraph 55.
[78] Exhibit 21608-X0004, application, paragraphs 56-58.

72. In ATCO Gas's view, customers benefitted from a coordinated response with ATCO Electric.[79] In response to a Commission IR, ATCO Gas confirmed that there were no shared costs related to the coordination of activities between companies, except for contracted locating costs for work required to locate underground assets. ATCO Gas was allocated two-thirds of these costs because most of its assets are underground, while ATCO Electric's assets are both above and below ground.[80]

73. The interveners did not comment on the issue of prudence of O&M costs in their argument or reply argument.

Commission findings

74. The Commission is persuaded by the evidence that ATCO Gas worked diligently and effectively to ensure the safety of the gas distribution system, to support critical facilities during the event and to return gas utility service to its customers to facilitate the re-entry of residents to evacuated areas. The Commission is satisfied that the timing of these activities, the scope of the work completed, and the O&M costs of $9.2 million incurred in response to this event in 2016, to enable service, were reasonable. The Commission therefore concludes that the O&M costs claimed for 2016 as an exogenous adjustment were prudent.

4.2.3 Lost revenue

75. In addition to the capital expenditures and O&M costs claimed, ATCO Gas also applied to recover $1,867,000 of lost revenue.[81] ATCO Gas calculated this lost revenue by comparing the actual normalized rate revenue to the rate revenue forecast for the Fort McMurray weather zone for the eight-month period May 1, 2016 to December 31, 2016. ATCO Gas indicated that this method is consistent with the approach that was approved by the Commission in Decision 2738-D01-2016, which approved ATCO Gas's Southern Alberta floods Z factor.[82]

76. ATCO Gas chose to include a one-time credit provided to the customers in the wildfire affected areas for the 32-day period from May 3, 2016 to June 4, 2016, which corresponded to the mandatory evacuation period. In this application, ATCO Electric included this one-time credit as part of the lost revenue component of the applied-for Z factor, to be recovered from all customers.

77. In response to an IR, ATCO Gas provided the following breakdown of the sites still not reconnected as of December 31, 2016, and advised that it could not predict when customers will rebuild, but that it expects customers to do so during the next five years.[83]

[79] Exhibit 21608-X0004, application, paragraph 14.
[80] Exhibit 21608-X0026, AG-AUC-2017SEP19-003.
[81] Exhibit 21608-X0004, application, Table 1, page 12.
[82] Exhibit 21608-X0004, application, paragraph 60.
[83] Exhibit 21608-X0030, AG-UCA-2017SEP19-003(j), (k) and (l).

Table 6. Sites not reconnected as of December 31, 2016

Sites destroyed by fire	1,620
Sites materially damaged by the fire and able to be inhabited	440
Sites not connected because no customer has approached ATCO Gas to reconnect, but the site is not destroyed or materially damaged	190
Total	**2,250**

78. Mr. Thygesen in his evidence for the CCA suggested that ATCO Gas was claiming compensation for a loss of customers, which has not been approved by the Commission previously and should not be approved in this application. As support, Mr. Thygesen stated that ATCO Gas appeared to be claiming lost revenue for sites which "are not destroyed or materially damaged" and for which "no customer has approached ATCO Gas to reconnect."[84] He also highlighted several news reports describing the decline in the market value of homes in Fort McMurray, suggesting that these homeowners are not coming back and are lost to ATCO Gas.[85] In addition, Mr. Thygesen submitted that because the allowed return for a utility is based on a reasonable opportunity to earn a fair return, if lost revenue becomes a form of utility compensation, then this needs to be factored into the risk compensation for utilities to account for the lower risk.[86] Mr. Thygesen also suggested that foregone or lost revenue has no bearing on ATCO Gas's ability to earn a fair return as ATCO Gas's return on equity (ROE) was "more than adequate" at 12.93 per cent, already higher than the allowed ROE of 8.3 per cent.[87]

79. In its argument, the CCA reiterated that there are very long timelines associated with determining if and when homes are ultimately connected, and restated that the underlying reason that sites have not been reconnected is due in part to low oil prices and low housing prices which makes it less economic to rebuild.[88] The CCA also expressed a concern that "in principle there appears to be nothing to prevent any utility from applying for compensation beyond the year in question."[89]

80. The UCA did not oppose ATCO Gas's claim for lost revenue in its entirety, but disputed that lost revenue is recoverable where a site is destroyed, uninhabitable or vacant, and where ATCO Gas has no indication as to when, or if, the particular site will be reconnected. The UCA submitted that the Commission's finding in Decision 2738-D01-2016 that it was reasonable to include lost revenue as part of a Z factor adjustment appeared to be premised on the fact that ATCO Gas continued to perform its duties as a service provider. The UCA argued that for sites which are destroyed, uninhabitable or vacant, there is no "customer" to provide service to, citing the definition of "customer" in ATCO Gas's terms and conditions. The UCA also stated that it did not argue in the proceeding leading to Decision 2738-D01-2016 that lost revenue should not be recoverable in relation to a specific subset of sites where possible rebuilding did not occur

84 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraph 48.
85 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraph 48.
86 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraph 44.
87 Exhibit 21608-X0049, CCA evidence of Mr. Thygesen, paragraphs 52-53.
88 Exhibit 21608-X0063, CCA argument, paragraphs 8-10.
89 Exhibit 21608-X0063, CCA argument, paragraph 11.

and, accordingly, claiming lost revenue with respect to such sites is a live issue before the Commission.[90]

81. In addition, the UCA submitted that it was not clear that "but for" the wildfire, ATCO Gas would have been receiving revenues from customers of the destroyed, uninhabitable or vacant sites. The UCA indicated that this is best demonstrated by the fact that for 190 sites, the site itself was not destroyed or materially damaged, but the customers for those sites did not request a reconnection of service. In the UCA's view, this suggests factors other than the wildfire affected the return of customers.[91]

82. In its rebuttal evidence, ATCO Gas disputed the CCA's assertion that a substantial portion of the homes destroyed will not be reconnected in the foreseeable future, and that the economic downturn was the cause of customers leaving.[92] ATCO Gas pointed to news articles that state that the pace of the rebuild had surpassed records for Fort McMurray, including peak oil years, and that many families were still sorting out insurance claims and making decisions about designs and selecting builders for their new homes. The same reports expected customers to start rebuilding their homes within the next couple of years.[93] ATCO Gas also disputed the CCA's assertion of the relevance of the utility ROE on the Z factor adjustment, stating the Z factor criteria established by the Commission do not include any requirement that the utility should not be earning above the allowed ROE.[94]

83. Further, contrary to the CCA's suggestion, ATCO Gas argued that the Z factor test does prevent utilities from applying for lost revenue compensation beyond the year in question, as Z factor applications are subject to a materiality threshold and, if the materiality threshold is not met, then the utility does not qualify for Z factor treatment even if the remaining four criteria are met. ATCO Gas advised that it did not apply for lost revenue for 2017 and beyond because it did not meet the materiality threshold.[95]

84. ATCO Gas argued that regardless of whether sites were destroyed or not, it provided distribution service to customers through repeated site visits and monitoring of the systems serving these premises. In addition, ATCO Gas continuously monitored demolition contracts to ensure they did not damage the distribution system.[96] ATCO Gas submitted that "Gas Services" as defined in its terms and conditions also include arranging for gas distribution service, the delivery of gas to a specific point of receipt, maintaining information systems, responding to inquiries, and other services that may be specified by the government. ATCO Gas indicated that it continued to provide support to residents long after re-entry and to all residents of the areas affected by the wildfire.[97]

90 Exhibit 21608-X0062, UCA argument, paragraphs 11-12.
91 Exhibit 21608-X0062, UCA argument, paragraph 24.
92 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 19.
93 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 17.
94 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 25.
95 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 17.
96 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 6.
97 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 15.

85. Further, ATCO Gas confirmed its position that, if it were not for the wildfire, ATCO Gas would have been receiving revenues from the customers of the destroyed sites.[98] ATCO Gas advised that since the lost revenue was calculated using the most recent customer count and throughput prior to the wildfire, the impact of the economic downturn was already factored into those figures. Accordingly, lost customers that had left the area prior to the wildfire due to other reasons were not included in the calculation of lost revenue.[99]

Commission findings

86. A Z factor allows for an adjustment to a company's rates to account for the significant financial impact of an event outside of the control of management. The event must not have an economy-wide impact, otherwise the cost of that impact would be reflected and recovered in the I factor. As stated by the Commission in Decision 2012-237, "… providing the company with additional revenues through a Z factor adjustment in circumstances where the event has economy-wide impacts would result in a double-counting of the impact of the exogenous event."[100] As held by the Commission in Decision 2738-D01-2016, "the concern with double-counting reflects an understanding that the Z factor is not restricted to recovery of replacement costs and operating costs but can also include revenues that would have otherwise been earned but for the event."[101]

87. In earlier sections 4.2.1 and 4.2.2 of this decision, the Commission determined the applied-for capital and O&M costs to be prudent, and the Commission agreed it was incumbent on ATCO Gas to meet its obligation to supply service to active sites located downstream of destroyed areas, as well as to inactive sites to ensure facilities were in place to provide gas utility service to its customers when they returned.

88. With reference to the number of disconnected sites shown in Table 6 above, the Commission finds that ATCO Gas has provided sufficient evidence for the Commission to reasonably find that, but for the wildfire, the customers with sites destroyed by fire (1,620), and the customers with sites materially damaged by fire and not inhabitable (440), which remained disconnected as of December 31, 2016, would have remained as customers and ATCO Gas would have received revenues from these customers. Accordingly, the revenue lost as a result of the wildfire for these customers is eligible for inclusion in the Z factor adjustment, and is recoverable if the Z factor materiality threshold is achieved. In making this finding, the Commission makes no determination with respect to the eligibility for Z factor treatment of lost revenue in future years or the relevance to future years of the number of customers connected to the ATCO Gas system prior to the wildfire where there may be other factors that would be relevant to a failure of customers to return to previously occupied properties.

89. However, with respect to the 190 sites where the site itself was not destroyed or materially damaged, and the customer has not requested reconnection, the Commission finds there may be factors other than the wildfire that prevented these customers from returning. As such, the Commission finds that ATCO Gas may not collect the lost revenue calculated for these 190 sites, other than the revenue lost during the mandatory evacuation period. ATCO Gas is

98 Exhibit 21608-X0059, ATCO Gas rebuttal evidence, paragraph 8.
99 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 10.
100 Decision 2012-237, paragraph 519.
101 Decision 2738-D01-2016, paragraph 43.

directed to recalculate lost revenue by excluding these 190 sites outside the mandatory evacuation period in the compliance filing to this decision.

4.3 Second criterion

90. This section deals with materiality. In Decision 2012-237, the Commission approved a Z factor materiality threshold as the dollar value of a 40-basis points change in after-tax ROE, which was used to determine the revenue requirement for ATCO Gas's 2012 going-in rates. The threshold is to be adjusted annually by the I-X index.[102]

91. ATCO Gas North's 2016 materiality threshold is $1.508 million. This threshold was approved in Decision 21606-D01-2016,[103] [104] for the purposes of ATCO Gas's K factor calculation, which uses the same 40 basis point ROE methodology for its calculation. In the application, ATCO Gas noted that the earnings impact of $8.2 million from this event is in excess of the Commission-approved materiality threshold.[105]

Commission findings

92. Given that ATCO Gas's applied-for Z factor adjustment of $11.2 million for costs incurred in 2016 significantly exceeds the approved 2016 materiality threshold of $1.508 million, the Commission is satisfied that ATCO Gas's Z factor is material, after accounting for the adjustments directed in Section 4.2.1 and Section 4.2.3 of this decision. In those sections, the Commission directed ATCO Gas to recalculate the revenue requirement related to capital additions and remove the lost revenue for certain sites, in its compliance filing to this decision. Given the relatively small magnitude of these adjustments, the Commission finds that ATCO Gas's Z factor is material.

4.4 Third criterion

93. In this section the Commission assesses whether the impact of the event had a significant influence on the inflation factor in the PBR formula.

94. The CCA argued that the I factor compensates distribution utilities for replacement costs.[106] ATCO Gas refuted this claim, explaining that the I factor is not a mechanism to fund replacements costs, but "a mechanism to adjust a company's revenues to reflect changes in the market forces which affect the prices of inputs that a company uses." It noted that there would be no need for capital tracker funding for replacement assets if the CCA's premise was correct.[107] In response to an IR from the UCA, ATCO Gas provided an analysis that consisted of two graphs that showed the presence of downward inflationary pressures prior to the wildfires and this downward trend in inflation did not appear to be affected by the event. It therefore concluded that the costs incurred as a result of the wildfire are not being recovered by a change in the I factor.[108]

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102 Decision 2012-237, paragraph 535.
103 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.
104 Decision 21606-D01-2016, paragraphs 75-76.
105 Exhibit 21608-X0004, application, paragraph 8.
106 Exhibit 21608-X0063, CCA argument, paragraphs 35-36.
107 Exhibit 21608-X0064, ATCO Gas reply argument, paragraph 39.
108 Exhibit 21608-X0030, AG-UCA-2017SEP19-010.

Commission findings

95. Regarding the CCA's argument that ATCO Gas's PBR revenue, which is based on going-in rates escalated by I-X, provides for replacement costs, the Commission agrees with ATCO Gas's view that there is insufficient evidence to conclude that the wildfire had a significant influence on the measures of inflation in Alberta included in the I factor and therefore, there is no double-counting of revenue if the Z factor is approved. In Decision 2012-237, the Commission held that "… providing the company with additional revenues through a Z factor adjustment in circumstances where the event has economy-wide impacts would result in a double-counting of the impact of the exogenous event."[109] As illustrated by ATCO Gas, this is not the case. Accordingly, the Commission dismisses the CCA argument that the I factor provided compensation to ATCO Gas for replacement costs associated with the wildfire.

5 Recovery mechanism

96. In its application, ATCO Gas sought approval of a recovery mechanism for the applied-for Z factor amount. ATCO Gas requested that this recovery mechanism be approved when more information is available regarding the decision timing of this proceeding, as well as other proceedings that would possibly impact the recovery of the approved Z factor amounts.

Commission findings

97. In previous sections of this decision, the Commission determined that ATCO Gas's 2016 costs related to the wildfire experienced in the Regional Municipality of Wood Buffalo meet all the criteria for Z factor treatment, subject to certain adjustments. Therefore, the Commission approves ATCO Gas's application to include the wildfire Z factor adjustment in its 2019 annual PBR rate adjustment filing due on September 10, 2018. ATCO Gas is directed to file a compliance filing to this decision to determine the amount of the Z factor adjustment, giving effect to the directions in this decision.

6 Order

98. It is hereby ordered that:

(1) ATCO Gas is directed to file a compliance filing application in accordance with the directions within this decision on or before July 6, 2018.

[109] Decision 2012-237, paragraph 519.

Dated on June 5, 2018.

Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Gas   Bennett Jones LLP
Consumers' Coalition of Alberta (CCA)
Office of the Utilities Consumer Advocate (UCA)   Reynolds, Mirth, Richards & Farmer LLP

Alberta Utilities Commission
 	
Commission panel
        M. Kolesar, Vice-Chair
        N. Jamieson, Commission Member
 	
Commission staff
        J. Graham (Commission counsel)
        S. Sharma
        A. Corsi

Appendix 2 – Summary of Commission directions

1. ATCO is directed, in the compliance filing, to provide all accounting entries reflecting the retirement of the assets destroyed by the wildfire. ATCO is also directed to indicate how the remaining net book value of the destroyed assets will be recovered from customers. .... Paragraph 51

2. The Commission has reviewed the capital costs incurred by ATCO Gas in response to this event and given the above, finds the scope of the work performed, the timing of the repair and replacement activity and the quantum of the capital costs to be prudent. However, during the proceeding, ATCO Gas identified a change in its insurance deductible and an error in capital expenditures associated with the Beacon Hill North Replacement Project. Accordingly, ATCO Gas is directed to reflect the updated insurance proceeds of $639,000 and the error in material costs of $6,073 in the compliance filing to this decision, and to recalculate its capital costs incurred and resulting Z factor revenue requirement for 2016. .... Paragraph 66

3. Given the uncertainty of whether all of the repaired and replaced mains and related assets continue to be used or required to be used after 2016, the Commission considers a verification of the continued use of the mains is warranted. Therefore, ATCO Gas is directed to include the following submissions in its compliance filing to this decision:

   (i) whether all or any of the mains and related assets that the Commission found were used or required to be used in 2016 continue to be used or required to be used after 2016

   (ii) a map showing the locations of the mains or portions thereof, and related assets, that do not supply any customers

   (iii) the net book value of mains or portions thereof, and related assets, that do not supply any customers

   (iv) for the mains or portions thereof, and related assets, that do not supply any customers, and ATCO Gas submits are required to be used:

      (a) the month and year that ATCO Gas expects customers to connect to the main

      (b) the basis of the forecast for the aforementioned month and year that ATCO Gas expects customers to connect to the main

   (vii) with respect to the mains and related assets that Commission found were used or required to be used in 2016,whether UAD principles apply after 2016 so as exclude all or a portion of these mains and related assets from rate base after 2016

   (viii) if all or any of the mains and related assets that the Commission found were used or required to be used in 2016 are no longer used or required to be used in subsequent years, what adjustments to rate base are required, if any and when such adjustments would be made. .... Paragraph 67

4. However, with respect to the 190 sites where the site itself was not destroyed or materially damaged, and the customer has not requested reconnection, the Commission finds there may be factors other than the wildfire that prevented these customers from returning. As such, the Commission finds that ATCO Gas may not collect the lost revenue calculated for these 190 sites, other than the revenue lost during the mandatory evacuation period. ATCO Gas is directed to recalculate lost revenue by excluding these 190 sites outside the mandatory evacuation period in the compliance filing to this decision. .... Paragraph 89

5. In previous sections of this decision, the Commission determined that ATCO Gas's 2016 costs related to the wildfire experienced in the Regional Municipality of Wood Buffalo meet all the criteria for Z factor treatment, subject to certain adjustments. Therefore, the Commission approves ATCO Gas's application to include the wildfire Z factor adjustment in its 2019 annual PBR rate adjustment filing due on September 10, 2018. ATCO Gas is directed to file a compliance filing to this decision to determine the amount of the Z factor adjustment, giving effect to the directions in this decision...... Paragraph 97

6. It is hereby ordered that:

   (1) ATCO Gas is directed to file a compliance filing application in accordance with the directions within this decision on or before July 6, 2018. .... Paragraph 98