Alberta Utilities Commission

Errata to Decision 23537-D01-2018

ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd.
Compliance Application II to Decision 22986-D01-2018, 2017-2018 General Rate Application Compliance Application

August 29, 2018

Alberta Utilities Commission
Decision 23537-D01-2018 (Errata)
Compliance Application II to Decision 22986-D01-2018,
2017-2018 General Rate Application Compliance Application
Proceeding 23537

August 29, 2018

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Alberta Utilities Commission

Calgary, Alberta

ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd.,
Compliance Application II to Decision 22986-D01-2018 Decision 23537-D01-2018 (Errata)
2017-2018 General Rate Application Compliance Application Proceeding 23537

1. On August 27, 2018, the Alberta Utilities Commission issued Decision 23537-D01-2018,[1] to ATCO Pipelines approving its compliance application II to Decision 22986-D01-2018[2] and 2017-2018 revenue requrements.

2. Section 48.1 of the Commission's Rule 001: *Rules of Practice* provides that the Commission may correct typographical errors, errors of calculation and similar errors made in any of its orders, decisions or directions. The Commission corrects errors of this nature through the issuance of an errata to the original decision.

3. Upon review of Decision 23537-D01-2018, the Commission has noted a typographical error that required correction.

4. Paragraph 31 under Commission findings and paragraph 38 in the Order contain incorrect years:

> 31. ATCO Pipelines' 2018 and 2019 revenue requirements of $248,016,000 and $268,226,000, respectively, are approved, subject to any approved placeholders.
>
> …
>
> 38. It is hereby ordered that:
>
> (1) ATCO Pipelines' 2018 and 2019 revenue requirements of $248,016,000 and $268,226,000, respectively, are approved, subject to any approved placeholders.

5. Paragraphs 31 and 38 of Decision 23537-D01-2018 are hereby amended to read as follows:

> 31. ATCO Pipelines' 2017 and 2018 revenue requirements of $248,016,000 and $268,226,000, respectively, are approved, subject to any approved placeholders.
>
> …

[1] Decision 23537-D01-2018: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., Compliance Application II to Decision 22986-D01-2018, 2017-2018 General Rate Application Compliance Application, Proceeding 23537, August 27, 2018.

[2] Decision 22986-D01-2018: ATCO Pipelines, Compliance Application to Decision 22011-D01-2017, 2017-2018 General Rate Application, Proceeding 22986, March 13, 2018.

38. It is hereby ordered that:

(1) ATCO Pipelines' 2017 and 2018 revenue requirements of $248,016,000 and $268,226,000, respectively, are approved, subject to any approved placeholders.

6. For ease of reference, a corrected version of Decision 23537-D01-2018 is appended to this errata.

Dated on August 29, 2018.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Panel Chair

(original signed by)

Bill Lyttle
Commission Member

(original signed by)

Tracee Collins
Commission Member

Alberta Utilities Commission

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

Compliance Application II to Decision 22986-D01-2018, 2017-2018 General Rate Application Compliance Application

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Contents

List of tables

ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd.
Compliance Application II to Decision 22986-D01-2018, **Decision 23537-D01-2018**
2017-2018 General Rate Application Compliance Application **Proceeding 23537**

1 Introduction

1. On May 15, 2018, ATCO Pipelines filed an application with the Alberta Utilities Commission requesting approval of its compliance filing to Decision 22986-D01-2018.[1] Specifically, ATCO Pipelines requested the Commission's approval or confirmation of:

- ATCO Pipelines' compliance with directions 1 and 4 from Decision 22986-D01-2018
- ATCO Pipelines' 2017-2018 forecast revenue requirements of $248,266,000 and $268,535,000, respectively, as final

2. In the application, ATCO Pipelines indicated that it was not filing a response to directions 2 and 3 of Decision 22986-D01-2018, pending the outcome of its application for review and variance (R&V) of that decision.[2] ATCO Pipelines explained why directions 2 and 3 from Decision 22986-D01-2018 were not addressed in its application, as follows:

> On May 7, 2018, AP [ATCO Pipelines] filed an application ("R&V Application") for review & variance of the Decision. The Decision contained three directions in addition to the direction to make the second compliance filing by March 29, 2018.
>
> The remedy sought in the R&V Application (at para. 43) is for the Commission to declare its decision denying inclusion of the weld re-inspection costs into AP's revenue requirement to be *void ab initio* and convene a new proceeding ("WARP Module") to determine the prudence of AP's weld re-inspection and repair costs.[3]

3. On June 4, 2018, the Commission issued a letter[4] outlining the process and schedule for Proceeding 23537. In the letter, the Commission indicated that, unless otherwise requested, the application would be tested by way of a *basic written process*, as no person had submitted a statement of intent to participate by the specified deadline of May 25, 2018.

4. Prior to proceeding with information requests (IRs), the Commission addressed ATCO Pipelines' non-compliance with directions 2 and 3 of Decision 22986-D01-2018, which requested additional information on ATCO Pipelines' Weld Integrity Assessment and Replacements Program, referred to as the Weld Assessment and Repair Program (WARP) in this proceeding. The Commission recognized that ATCO Pipelines had filed an R&V of Decision 22986-D01-2018, but indicated that it was not satisfied that deferring consideration of ATCO

[1] Decision 22986-D01-2018: ATCO Pipelines, Compliance Application to Decision 22011-D01-2017, 2017-2018 General Rate Application, Proceeding 22986, March 13, 2018.
[2] ATCO Pipelines' review and variance in Proceeding 23539, Applications to Review and Vary Decision 22986-D01-2018.
[3] Exhibit 23537-X0001, paragraph 10.
[4] Exhibit 23537-X0005, AUC letter – Process schedule.

Pipelines' weld repair costs pending the outcome of the R&V application was warranted. Accordingly, ATCO Pipelines was directed to file a response to directions 2 and 3 of Decision 22986-D01-2018.[5]

5. ATCO Pipelines provided its response to directions 2 and 3 of Decision 22986-D01-2018 on June 14, 2018.[6]

6. IRs were issued to ATCO Pipelines by the Commission on June 21, 2018[7] and August 10, 2018,[8] and IR responses were received from ATCO Pipelines on July 4, 2018[9] and August 17, 2018.[10]

7. For the purposes of this decision, the Commission considers the record of the proceeding to have closed on August 17, 2018.

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

2 Compliance with the Commission's directions from Decision 22986-D01-2018

9. In the sections that follow, the Commission considers ATCO Pipelines' compliance with directions 1 through 4 from Decision 22986-D01-2018.

2.1 Direction 1 – Removal of 2016 re-inspection costs from rate base and revenue requirement

10. Decision 22986-D01-2018, Direction 1, stated:

> 49. Based on the foregoing, ATCO Pipelines is directed to remove its 2016 re-inspection costs from its 2017 opening rate base and the forecast 2017 and 2018 re-inspection capital expenditures from its 2017-2018 revenue requirements. Similarly, ATCO Pipelines will not be expected to apply any potential proceeds from legal action against rate base. The Commission also concludes that customers should not bear the costs associated with this litigation and directs ATCO Pipelines to remove any of such costs from its revenue requirement. Given the finding by the Commission that 100 per cent of the re-inspection costs are to be removed from ATCO Pipelines' 2017 opening rate base and 2017-2018 revenue requirements, a determination on the proper accounting treatment of these costs is now rendered moot.

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5 Exhibit 23537-X0005, AUC letter – Process schedule.
6 Exhibit 23537-X0007, AP Supplemental Compliance Filing to Directions 2 and 3.
7 Exhibit 23537-X0007, AUC IR Round 1 to ATCO Pipelines.
8 Exhibit 23537-X0010, AUC letter and supplemental IR Round 2 to ATCO Pipelines.
9 Exhibit 23537-X0008, ATCO Pipelines IR responses to AUC.
10 Exhibit 23537-X0013, ATCO Pipelines IR response to AUC.

11. In its application, ATCO Pipelines removed $1.516 million in 2016 estimated re-inspection costs from its 2017 opening rate base amounts.[11] When questioned in an IR why this amount did not correspond to the stated amount of $1.972 million in 2016 actual re-inspection costs, ATCO Pipelines responded that its forecast revenue requirements were based on the estimated amount of $1.516 million as opposed to 2016 actuals. ATCO Pipelines further clarified that the $1.972 million in actual re-inspection costs would be removed from opening rate base amounts in its next general rate application (GRA).[12]

Commission findings

12. The Commission is satisfied that ATCO Pipelines has properly removed the forecast re-inspection costs from its forecast revenue requirements and considers ATCO Pipelines' explanation that actual costs of $1.972 million will be removed from opening rate base amounts in its next GRA is reasonable. The Commission finds that ATCO Pipelines has complied with Direction 1 of Decision 22986-D01-2018.

2.2 Direction 2 – Information with respect to 2016 actual retirements and cost of removal

13. Decision 22986-D01-2018, Direction 2, stated:

> 50. Before rendering a finding on the reasonableness of ATCO Pipelines' actual and forecast weld repair costs, the Commission notes that AP-CCA-2017NOV07-001(a-c) attachment includes 2016 actual retirements and cost of removal, which raises potential utility asset disposition concerns. ATCO Pipelines is therefore directed to provide on a <u>project-by-project basis</u>, the following information with respect to the "actual" costs shown on Exhibit 22986-X0017, AP-CCA-2017NOV07-001(a-c) attachment:
>
> - A description of the asset(s) being retired and the associated original historical costs (including confirmation that the asset retirements are directly related to ATCO Pipelines' weld program).
> - An explanation of the costs of removal incurred as shown on the referenced attachment.
> - An explanation of whether ATCO Pipelines believes the retirements should be considered an ordinary or extraordinary retirement, and why.
> - A discussion of whether ATCO Pipelines' treatment of these retirements is consistent with the utility asset disposition decision.
> - Identification of the remaining net book value [NBV] of the assets, assuming the asset retirements (directly related to ATCO Pipelines' weld program) were to be considered an extraordinary retirement. [emphasis in original]

14. In its supplemental response filed June 14, 2018, ATCO Pipelines provided a schedule of its 2016 WARP repair projects, which included details of estimated and actual historical repair project costs, the cost of removal and the associated original historical cost of the assets that were retired. The schedule also contained a description of the assets being retired and explanations of the associated costs of removal.[13] ATCO Pipelines estimated the remaining NBV

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11 Exhibit 23537-X0001, ATCO Pipelines 2017-2018 Compliance II, Attachment B, Schedule 2.2-2, line 3.
12 Exhibit 23537-X0008, AP-AUC-2018JUN21-006, PDF page 72.
13 Exhibit 23537-X0006, Attachment C, PDF page 19.

of the WARP assets retired from Account 465 – Transmission Mains during 2016 to be in the amount of $1.2 million.[14]

15. ATCO Pipelines considered that the retirement of these assets was consistent with the UAD decision because ordinary asset retirements such as these had been previously anticipated or contemplated in prior and current depreciation studies. Furthermore, the WARP weld retirements (in the amount of $1.2 million) being charged to Account 465 Accumulated Depreciation (with a balance of $273 million) represented less than 0.5 per cent of the reserve account, which ATCO Pipelines submitted added proof that the retirements related to WARP were in the ordinary course as they would not unduly deplete the account.[15] Finally, ATCO Pipelines confirmed that all assets under review of the WARP continued to remain in rate base as they continued to be used or required to be used.[16]

16. ATCO Pipelines provided examples of past retirements caused by weld integrity concerns similar to WARP, and that these retirements were considered in prior depreciation studies. For example, ATCO Pipelines noted:

> More recently, weld re-inspection, repair, and retirements were anticipated and contemplated in AP's 2015 Depreciation Study. Notably, in AP-UCA-2016NOV18-013(g-h) Attachment two distinct weld integrity discussions were documented between Mr. Earl Robinson and AP. Specifically, meeting minutes documented weld integrity discussions on June 13, 2016 in the Executive Leadership meeting and on June 15, 2016 in the Pipeline Systems meeting.
>
> Further evidence of weld integrity contemplation occurred on August 15, 2016 as Mr. Robinson independently performed an analysis to determine the impact of the forecast weld program on depreciation rates. [footnote deleted]

17. ATCO Pipelines also noted that the *Uniform System of Accounting for Natural Gas Utilities Regulation* indicated that "An extraordinary retirement results in a loss (or gain) to the extent that the net charges (or credits) would unduly deplete (or inflate) the accumulated depreciation or amortization accounts."[17]

Commission findings

18. In Decision 22986-D01-2018, the Commission requested further information on repair costs and any related retirements, which potentially could have utility asset disposition (UAD) implications. In particular, the Commission was interested in better understanding whether the weld retirements were considered ordinary or extraordinary retirements.

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[14] Exhibit 23537-X0006, Table 4, PDF page 10: NBV calculated $1.3 million historical cost less $0.09 million accumulated depreciation = $1.2 million NBV.

[15] Exhibit 23537-X0008, AP-AUC-2018JUN21-007, PDF page 73, referencing the response to AP-AUC-2018JUN21-001(a-b), revised Table 3, PDF page 7.

[16] Exhibit 23537-X0006, Table 4, PDF pages 9-10.

[17] *Uniform System of Accounting for Natural Gas Utilities Regulation*, Section 8 Retirements (A), page 9.

19. In Decision 2013-417, Utility Asset Disposition (UAD decision),[18] the Commission indicated that the *Uniform Classification of Accounts for Gas Utilities Regulation* provides the "complete framework for recovery of utility investment and return on that investment."[19]

20. Section 8 of the *Uniform System of Accounting for Natural Gas Utilities Regulation* defines ordinary and extraordinary retirements as follows:

> Ordinary retirements result from causes reasonably assumed to have been contemplated in prior depreciation provisions, and normally may be expected to occur when plant reaches the end of its expected service life.
>
> …
>
> Extraordinary retirements defined as retirements from causes not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions.[20]

21. ATCO Pipelines confirmed that it had no assets to be retired (removed from rate base) and moved to a non-utility account as a result of becoming no longer used or required to be used from causes that were not reasonably assumed to have been anticipated or contemplated in prior depreciation studies. Based on this confirmation, the Commission is satisfied that the weld repair and related retirements have been considered in prior and current depreciation studies and the corresponding depreciation or amortization provisions as outlined by the UAD decision, and do not meet the criteria for consideration as an extraordinary retirement.

22. The Commission is satisfied that the retirements related to the WARP in this GRA do not constitute extraordinary retirements as contemplated in the UAD decision.

23. The Commission finds that ATCO Pipelines has complied with Direction 2 of Decision 22986-D01-2018.

2.3 Direction 3 – Information with respect to actual and forecast repair costs

24. Decision 22986-D01-2018, Direction 3, stated:

> 51. The Commission also requires ATCO Pipelines to provide further clarity on its actual and forecast repair costs. ATCO Pipelines is therefore directed to explain:
>
> - For the defective welds that have been, or are forecast to be removed from service, discuss whether any costs are categorized as retirements and provide annual actual amounts where available and forecasts for other time periods for 2016, 2017, 2018 and 2019. Discuss whether ATCO considers any retirements from service to be extraordinary retirements and provide those costs for 2016, 2017, 2018 and 2019. In addition, describe whether the cost components include internal or external engineering assessments or engineering critical assessments, operational isolation to implement weld repairs or cut outs, weld repairs, weld sleeve cut-outs and replacements and subsequent radiographic inspections. Provide a breakdown of these cost components and any other relevant categories for 2016, 2017, 2018 and 2019.

[18] Decision 2013-417: Utility Asset Disposition, Proceeding 20, Application 1566373-1, November 26, 2013.
[19] Decision 2013-417, paragraph 304.
[20] *Uniform System of Accounting for Natural Gas Utilities Regulation*, Section 8 Retirements (A), page 9.

- Provide a comparison of the cost of completing the forecast repairs for the deficient welds within the weld shop as part of rework assuming the rework was conducted between 2008 and 2015 (i.e., assuming the deficient welds had been disclosed when first subject to radiographic inspection) versus field weld repairs required to be completed in the current circumstance.
- Discuss whether ATCO is continuing with any re-verification or audit program for new installations and/or for the 2016-2019 Weld Integrity Inspections and Replacements Program. Provide any associated reverification or audit costs as a line item in the relevant inspection or repair cost summaries requested above.

25. In its supplemental response to Direction 3, ATCO Pipelines explained that proper inspections would have resulted in repairs being performed in shop at significantly lower costs:

> AP has estimated that on average the cost to repair the affected welds, had they been discovered immediately and the rework been completed in the shop, to range between 4% (for straightforward weld repair work) and 11% (for complex replacement work) of the repair costs actuals.[21]

26. In response to AP-AUC-2018AUG08-001(a), ATCO Pipelines provided a table using the four per cent to 11 per cent range and applying it to the repair costs presented in Exhibit 23537-X0006, which is reproduced in the table below.[22]

Table 1. Forecast cost of repairs in shop using straightforward and complex range

		Test	
	2016 Actuals	2017 Forecast	2018 Forecast
	($)		
Repairs total (from Exhibit 23537-X0006, Table 6, PDF page 12)	3,079,000	1,900,000	2,500,000
All repairs are straightforward and completed in the shop (4% of the total)	123,160	76,000	100,000
All repairs are complex and require replacement in shop (11% of the total)	338,690	209,000	275,000

27. ATCO Pipelines explained that in its original forecast, it did not contemplate breaking down the remediation costs into straightforward repairs and complex replacements. However, ATCO Pipelines used the updated forecast[23] it filed in this proceeding to provide a more detailed breakdown of weld remediation required, to calculate a forecast of the in-shop repair costs for the 2016-2018 years in the table below.[24]

21 Exhibit 23537-X0006, AP Supplemental Compliance Filing for Direction 2 and 3, PDF page 15.
22 Exhibit 23537-X0013, ATCO Pipelines Round 2 information responses to AUC, PDF page 3.
23 Exhibit 23537-X0008, ATCO Pipelines IR responses to AUC, PDF page 6
24 Exhibit 23537-X0013, ATCO Pipelines Round 2 IR responses to AUC, AP-AUC-2018AUG08-001(b), PDF page 3.

Table 2. Forecast remediation costs using straightforward repairs and complex replacements ratio

		Test years	
	2016 Actuals	2017 Forecast	2018 Forecast
	($)		
470/710 weld remediations are straightforward	81,532	50,312	66,200
240/710 weld remediations are complex	114,477	70,642	92,950
Total	196,009	120,954	159,150

28. In response to AP-AUC-2018AUG08-001(c), ATCO Pipelines revised its regulatory schedules for the test years, to exclude any incremental repair costs arising from the improper inspections.

Commission findings

29. In Decision 22986-D01-2018, the Commission found:

> 48. In the circumstances, the Commission finds that ratepayers should not bear the costs resulting from having to now re-inspect welds that were not properly inspected in the first instance. The Commission is not persuaded that inspection costs are properly recovered from customers. The costs of the original, deficient inspections have been, or are being, recovered through rates, and the Commission finds it would be unreasonable to permit ATCO Pipelines to recover re-inspection costs from customers when it has the ability to pursue (and is pursuing) through litigation those responsible for these costs (the involved radiographic inspection companies and technicians). The Commission finds that rather than approving ATCO Pipelines' proposal to recover the costs from customers, and then credit customers for any litigation proceeds obtained, ATCO Pipelines should recover the costs from the involved radiographic companies and technicians for its own account to the extent that it is able to do so.

30. Consistent with the Commission's finding on re-inspection costs, the Commission considers that ratepayers should not be responsible for any incremental repair costs arising from the improper inspections. The Commission has reviewed ATCO Pipelines' regulatory schedules included in response to AP-AUC-2018AUG08-001(c) and is satisfied that these schedules only include the forecast capital costs for repairs or rework that would have been performed in shop had the original inspections been performed properly. The Commission finds that these revised regulatory schedules result in ratepayers only bearing the prudently incurred repair costs referenced in Table 2 above that would have been completed in shop had the original inspections been properly performed and had disclosed the necessary repair(s) at that time.

31. ATCO Pipelines' 2017 and 2018 revenue requirements of $248,016,000 and $268,226,000, respectively, are approved, subject to any approved placeholders.

32. Consistent with the Commission's comments in paragraph 12 of this decision with respect to the removal of actual 2016 re-inspection costs in the amount of $1.972 million from its opening 2016 rate base at the time of ATCO Pipelines' next GRA, the Commission expects

ATCO Pipelines will similarly remove actual incremental 2016 weld repair costs in the amount of $2.883 million[25] from its opening rate base at the time of its next GRA.

33. The Commission is satisfied that ATCO Pipelines has complied with Direction 3 of Decision 22986-D01-2018.

2.4 Direction 4 – Deadline for filing of compliance application

34. Decision 22986-D01-2018, Direction 4, stated:

> 56. ATCO Pipelines is directed to file its compliance application to the directions related to the Weld Integrity Inspections and Replacements Program by March 29, 2018. The Commission will issue a final determination on ATCO Pipelines’ 2017-2018 revenue requirements in the compliance filing to this decision.

35. On March 28, 2018, ATCO Pipelines in a letter[26] to the Commission requested an extension to May 15, 2018, for filing its compliance application to Decision 22986-D01-2018 in order to fully assess the requested information.

36. In a letter also dated March 28, 2018, the Commission approved the extension to the date for filing the second compliance application to May 15, 2018.

Commission findings

37. Having filed its compliance application to Decision 22986-D01-2018 on the revised date of May 15, 2018, the Commission finds that ATCO Pipelines has complied with Direction 4.

3 Order

38. It is hereby ordered that:

(1) ATCO Pipelines’ 2017 and 2018 revenue requirements of $248,016,000 and $268,226,000, respectively, are approved, subject to any approved placeholders.

[25] Calculated from tables 1 and 2 as $3.079 million less $0.196 million.
[26] Post-disposition document filed to the record of Proceeding 22986 on March 28, 2018 – AP Extension Request to file Compliance II.

Dated on August 27, 2018.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Panel Chair

(original signed by)

Bill Lyttle
Commission Member

(original signed by)

Tracee Collins
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Pipelines   Bennett Jones LLP

Alberta Utilities Commission
 	
Commission panel
    N. Jamieson, Panel Chair
    B. Lyttle, Commission Member
    T. Collins, Commission Member
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    M. McJannet
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