Alberta Utilities Commission

AltaGas Utilities Inc.

2017 Capital Tracker True-Up Application

December 18, 2018

Alberta Utilities Commission
Decision 23623-D01-2018
AltaGas Utilities Inc.
2017 Capital Tracker True-Up Application
Proceeding 23623

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Eau Claire Tower, 1400, 600 Third Avenue S.W.
Calgary, Alberta
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Telephone: 403-592-8845
Fax: 403-592-4406

Website: www.auc.ab.ca

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1 Decision

1. This decision provides the Alberta Utilities Commission's determination of AltaGas Utilities Inc.'s (AltaGas or AUI) 2017 capital tracker true-up application. For the reasons outlined in this decision, the Commission has determined that:

- The non-certified polyethylene (NCPE) Leduc 22A (rural) project was not previously applied for by AltaGas and therefore was not previously considered by the Commission for need. In this application, the Commission assessed this project for need. The NCPE Leduc 22A (rural) project has been found by the Commission to be needed.
- The actual scope, level, timing and actual costs of each of the projects or programs included in the 2017 true-up were prudently incurred and satisfy the project assessment requirement of Criterion 1.
- The capital tracker projects or programs included in the 2017 true-up meet the requirements of the accounting test under Criterion 1.
- There was no need to undertake a reassessment of the project or program requirements against Criterion 2, because the drivers for AltaGas's three programs had not changed.
- The projects or programs included in the 2017 true-up satisfy the materiality requirement under Criterion 3.
- AltaGas has complied with prior Commission directions.

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

- Section 2 provides an introduction and procedural background to the decision.
- An overview of the capital tracker approach under performance-based regulation (PBR) is provided in Section 3.
- Section 4 provides the Commission's process for reviewing the 2017 capital tracker true-up application.
- Section 5 provides a summary of the programs or projects for which AltaGas has sought a capital tracker true-up in 2017 on an actual basis.
- The Commission's evaluation of AltaGas's proposed capital project groupings is set out in Section 6.
- The Commission's assessment of AltaGas's programs or projects proposed for capital tracker treatment under Criterion 1 is set out in sections 7 and 8 dealing with the project assessment and the accounting test, respectively.
- The Commission's assessment under Criterion 2 is undertaken in Section 9, and the Commission's assessment under Criterion 3 is set out in Section 10.

- Compliance with prior Commission directions are discussed in Section 11 and Appendix 3.
- Section 12 deals with the 2017 K factor true-up calculation.
- Finally, service quality and asset monitoring are discussed in Section 13.

2 Introduction and procedural background

3. On June 5, 2018, AltaGas filed its 2017 capital tracker true-up application and associated schedules with the Commission.[1] On July 5, 2018, AltaGas filed evidence that the 2017 capital cost allowance amounts have been reconciled with the amounts filed with the Canada Revenue Agency (CRA) (item 1.c. from Appendix 3 of Decision 3558-D01-20151[2]). On June 7, 2018, the Commission issued a filing announcement and notice of the application, with statements of intent to participate (SIPs) due June 14, 2017.[3]

4. The Commission received a SIP from the Consumers' Coalition of Alberta (CCA) on June 13, 2018, and from the Office of the Utilities Consumer Advocate (UCA) on June 16, 2017.[4]

5. The Commission issued a process letter for this proceeding on June 18, 2018, that included the following process schedule:

Process step	Due date
Information requests (IRs) to AltaGas	July 10, 2018
IR responses from AltaGas	July 30, 2018
Submissions on the need for further process	August 7, 2018

6. By letters dated August 7, 2018, AltaGas, the CCA and the UCA each filed submissions on the need for further process.[5] AltaGas stated that there is sufficient information on the record to enable the Commission to fully assess the application and that no further process steps were required. The CCA and UCA requested further process of written argument and reply to resolve the issues in this proceeding.

7. Also on August 7, 2018, the UCA filed a motion requesting a direction from the Commission requiring AltaGas to provide full and adequate responses to the UCA's IRs.[6] In its September 6, 2018 letter, the Commission included a process schedule update, adding argument

[1] Exhibits 23623-X0001 to 23623-X0007.
[2] Decision 3558-D01-2015: Distribution Performance-Based Regulation, Commission-Initiated Proceeding to Consider Modifications to the Minimum Filing Requirements for Capital Tracker Applications, Proceeding 3558, Application 1611054-1, April 8, 2015.
[3] Exhibits 23623-X0008 and 22623-X0009.
[4] Exhibits 23623-X0010 and 23623-X0011.
[5] Exhibits 23623-X0022, 23623-X0026 and 23623-X0027.
[6] Exhibits 23623-X0023, 23623-X0024, and 23623-X0025.

and reply argument, with September 30, 2018, and October 4, 2018, set as the respective due dates.[7]

8. The Commission considers the record for this proceeding to have closed on October 4, 2018, with the filing of reply argument.[8]

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

3 Background – overview of the capital tracker approach under PBR

10. On September 12, 2012, the Commission issued Decision 2012-237,[9] which set out the PBR framework and approved PBR plans for the distribution utility services of certain Alberta electric and gas utilities (collectively the distribution utilities), including AltaGas. Within these PBR plans, the Commission approved a rate adjustment mechanism to fund certain capital-related costs. This supplemental funding mechanism was referred to in Decision 2012-237 as a "capital tracker" with the revenue requirement associated with approved amounts to be collected from ratepayers by way of a "K factor" adjustment to the annual PBR rate-setting formula.

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

12. Subsequent to the release of Decision 2013-435, each distribution utility has filed separate capital tracker applications on an annual basis for its specific capital trackers. AltaGas's last such proceeding was filed in 2017 and led to Decision 22710-D01-2017,[11] which dealt with AltaGas's 2016 capital tracker true-up.

[7] Exhibit 23623-X0032.
[8] Exhibits 23623-X0038, 23623-X0039 and 23623-X0040.
[9] Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012.
[10] Decision 2013-435: Distribution Performance-Based Regulation, 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.
[11] Decision 22710-D01-2017: AltaGas Utilities Inc. 2016 Capital Tracker True-Up Application, Proceeding 22710, November 23, 2017.

13. A comprehensive overview of the capital tracker approach under PBR is provided in Section 2.1 of Decision 20522-D02-2016.[12] A summary of AltaGas's prior capital tracker-related decisions and resulting approved K factor amounts is attached as Appendix 2 to this decision.

4 Commission process for reviewing the 2017 capital tracker true-up application

4.1 General process

14. The Commission's process for reviewing AltaGas's 2017 capital tracker true-up application followed the same steps as those set out in Section 4 of the last AltaGas capital tracker decision, Decision 22710-D01-2017. In that decision, the Commission indicated that it would generally only undertake assessments with respect to all three criteria for capital tracker treatment for capital projects or programs that the Commission has not considered in prior capital tracker decisions. For projects or programs for which the Commission has previously confirmed the need under the project assessment component of Criterion 1 in prior capital tracker decisions, the Commission did not undertake a reassessment of need under Criterion 1 in the absence of evidence that the project or program was no longer required. However, the Commission did assess the scope, level and timing of each project or program for prudence, and whether the actual costs of the project or program were prudently incurred, as required by the second part of the project assessment under Criterion 1.

15. The Commission also considered that for the purposes of the true-up of the 2017 capital tracker programs or projects for which the Commission undertook and approved the assessment against the Criterion 2 requirements in prior capital tracker decisions, there was no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program had changed. An assessment of the 2017 capital tracker projects and programs with respect to the accounting test under Criterion 1 and materiality test under Criterion 3 was also conducted in this proceeding.

16. Finally, consistent with the approach set out in previous capital tracker decisions,[13] to the extent the Commission has previously approved the grouping of projects for capital tracker purposes, the Commission did not re-evaluate those groupings in this decision.

4.1.1 Issue raised by the CCA

17. The CCA did not oppose AltaGas's application for true-up of its 2017 capital tracker projects, stating that the projects have been approved in previous applications. However, the CCA expressed a concern with what it termed a "blanket approval that Capital Tracker status seems to confer on replacement projects and what appears to diminish the need for ongoing validation of the requirement for the proposed project."[14]

18. The CCA expressed its belief that Criterion 1 for capital trackers is not being consistently applied and is effectively being treated as a "rubber stamp" process by the utilities and the Commission for certain projects that should instead require specific evaluation and validation. "Once a program has been initiated and received approval as a Capital Tracker Program, there

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

[13] See for example, Decision 22710-D01-2017, paragraphs 37-41.

[14] Exhibit 23623-X0034, CCA argument, paragraph 4.

appears to be no sunset for the ongoing approval, as long as the utility identifies subsequent projects that fit under the label of a previously approved program."[15]

19. For integrity-based replacements such as pipeline replacement projects, the CCA asserted that each replacement project must be supported by evidence specific to the replacement being considered and this evidence must continue to meet Criterion 1. The CCA stated that, "Simply placing or describing a project as part of a previous approved program should not lead to a process where it is assumed that the project is required."[16]

20. The CCA recommended that in future applications where capital addition approvals involve the replacement of existing assets for integrity or obsolescence reasons, that AltaGas be required to provide for each project, specific and current evidence that supports and validates the proposed replacements.[17]

21. The CCA further recommended post-removal pipe integrity assessments be required to identify the condition of the asset being replaced to confirm AltaGas's engineering assessments to replace are valid and for use in the evaluation of similar projects.[18]

22. AltaGas disagreed with the CCA's "continuous verification of adherence to Criterion One" characterization of the capital tracker project approval process. AltaGas noted that the projects in question are part of multi-year programs approved by the Commission in Decision 2012-091[19] and as capital tracker programs in Decision 2013-435. The programs are targeted replacement programs with specific projects identified and completed over several years. AltaGas stated:

> 6. … in its capital tracker true-up applications, all PVC, pre-1957, and non-certified and interim-certified polyethylene (NCPE) will need to be replaced to ensure the safety and reliability of the system. There will be circumstances where the timing of the individual projects may need to shift a year or two within the multi-year time horizon through evaluations and recommendations from AUI's experienced and technical staff.
>
> 7. Contrary to what the CCA suggests, the fact that AUI determined the deferred pipe replacement projects were not in imminent danger of failure and, in the interim, could be dealt with through AUI's existing safety management program does not mean that the replacement of the pipe is not appropriate pursuant to Criterion One. Imminent danger of failure is not the required threshold; nor should it be if the goal is to maintain the safety and reliability of the system.[20]

23. In respect of the CCA's recommendation for post-removal integrity assessments, AltaGas noted that replaced pipe is abandoned in place and not removed, and submitted that the dangers and risks associated with the asset type and vintage characteristics of each type of pipe are well established in AltaGas's capital tracker applications. Further, as part of each replacement project, AltaGas verifies the type and vintage of pipe planned for replacement to ensure it is consistent

15 Exhibit 23623-X0034, CCA argument, paragraphs 5 and 7.
16 Exhibit 23623-X0034, CCA argument, paragraph 7.
17 Exhibit 23623-X0034, CCA argument, paragraph 20.
18 Exhibit 23623-X0034, CCA argument, paragraphs 14 and 22.
19 Decision 2012-091: AltaGas Utilities Inc., 2010-2012 General Rate Application – Phase I, Proceeding 904, Application 1606694-1, April 9, 2012.
20 Exhibit 23623-X0040, AltaGas reply argument, paragraphs 6-7.

with the replacement program and makes adjustments to its projects as necessary for any discrepancies that are identified. AltaGas's view is that the CCA's recommendation is unwarranted and would add additional cost to the programs while providing no additional value.

Commission findings

24. AltaGas's pipeline replacement, station refurbishment and gas supply programs were originally approved in Decision 2012-091. In Decision 2013-435, the Commission approved these three programs for capital tracker treatment for AltaGas. The capital tracker programs were approved as multi-year programs, recognizing the ongoing nature of the programs, and the considerable work entailed and associated timelines. Two of those programs, which are the focus of the CCA's objection, are the pipeline replacement and station refurbishment system betterment programs.

25. Under the approved programs, in its capital tracker forecast applications during the 2013 to 2017 PBR term, AltaGas proposed specific projects. The projects were chosen and prioritized based on an approved risk matrix, which consisted of a number of safety, reliability and practical or logistical criteria.

26. The Commission has recognized in previous AltaGas capital tracker decisions that asset replacement may require a level of execution flexibility because situations occur where certain projects that were identified, approved and scheduled for a particular year may need to be advanced, cancelled, or deferred to a future year, based on updated information. After a forecast has been made by AltaGas and approved by the Commission, changing circumstances will result in updated information related to safety and reliability issues. In addition, practical and logistical factors can affect the schedule of an approved project, such as adverse weather conditions, availability of internal and external resources, land access issues, and the need or desirability to co-ordinate utility work with municipal work.

27. The need for the above referenced AltaGas projects was approved under Criterion 1 in previous capital tracker decisions. In the true-up applications, the remaining aspects of Criterion 1 which require approval from the Commission are scope, level and timing of each project or program for prudence, and whether the actual costs were prudently incurred. Section 7 below addresses these remaining aspects of Criterion 1 and in each instance the Commission finds the projects in question satisfy the outstanding requirements of Criterion 1.

28. In addition, the Commission reminds the CCA that future capital projects beyond the 2017 capital tracker true-up will be undertaken by the distribution utilities, including AltaGas, under the new 2018-2022 PBR plan that does not have the capital tracker mechanism in its current form. Therefore, the three criteria used during the 2013 to 2017 PBR term do not apply in the 2018-2022 PBR term. The new capital funding mechanism with its superior incentives, and associated plan safeguards to monitor service quality and reliability are further discussed in Section 13 of this decision.

29. The Commission finds the CCA's interpretation of the application of the capital tracker Criterion 1 to be impractical, inefficient, inconsistent with previous Commission decisions and unnecessary. For these reasons, the Commission does not accept the CCA's interpretation of the application of the capital tracker Criterion 1.

30. In respect of the CCA's recommendation for post-removal integrity assessments of pipe, the Commission considers that an after-the-fact assessment and the benefit of perfect hindsight would not change the previous Commission determination that these projects, based on the risk assessments that had been performed, required replacement or refurbishment. Each pipeline replacement project is unique and contextual, and the information obtained from the integrity assessment may not be useful in determining the interplay between the many criteria used in the risk analysis performed by AltaGas when identifying and prioritizing replacement projects and the actual need for replacement of pipe. The Commission acknowledges the key role that AltaGas's engineering judgement plays in its replacement program decisions. The Commission also accepts AltaGas's submission that, since the pipe is abandoned in place, removal and integrity assessment would add additional costs to customers. For these reasons, the Commission does not agree that the CCA's recommendation is necessary for AltaGas's replacement programs.

4.2 Materiality threshold for project or program variance explanations

31. In the application, AltaGas continued with the approach it used in its 2016 capital tracker true-up and which the Commission found to be reasonable in Decision 22710-D01-2017. This includes assessment at the project level rather than account line level, subject to significant variances at the account line level.

32. AltaGas uses Rule 005[21] as a guideline in establishing thresholds for project variance explanations. From its 2017 Rule 005 filing, AltaGas fits within the Rule 005 rate base category of between $100 million and $500 million. On this basis, AUI provided variance explanations as follows:

- For cost differences, where the variance for the actual total cost at the individual project level is +/-$500,000; or greater than or equal to +/-10 per cent and a dollar amount greater than or equal to +/-$125,000 of the approved amount;
- For non-financial data, such as units/volume differences, where the variance for actual length of pipe (i.e., kilometre (km)) at the individual project level is greater than or equal to +/- 10 per cent of the approved amount; and
- Explanations for differences in overhead rates for individual projects are provided where variances on an individual project are greater than +/- 0.5 per cent and +/- $10,000.

33. AltaGas submitted that the variance thresholds provide a reasonable guideline to ensure larger cost and volume variances (positive or negative) are appropriately explained and are similar to those used by other utilities (e.g. ATCO Utilities). To the extent there may be significant variances at the account line level, AltaGas stated that further information may be provided to support the variance explanations.

Commission findings

34. Based on AltaGas's most recent Rule 005 filing,[22] the Commission agrees that AltaGas fits within the $100 million to $500 million rate base category. The Commission confirms that

[21] Rule 005: *Annual Reporting Requirements of Financial and Operational Results.*

[22] Schedule 2 of AltaGas's 2017 Rule 005 filing shows AltaGas's mid-year rate base to be within the $100 million to $500 million range. The schedule is available on the website of the Alberta Utilities Commission under

the cost and non-financial variance explanation thresholds that AltaGas provided in the application and as described above are consistent with the Rule 005 thresholds.

35. The Commission continues to find AltaGas's variance explanation threshold definition, including assessment at the project level rather than account line level, subject to significant variances at the account line level, to be reasonable. The Commission has generally applied this threshold in the Commission's assessment of the application. Where the Commission required further information on specific variances, it addressed that need during the IR process.

4.3 Level of project assessment detail and AltaGas forecast accuracy

36. In this decision, the Commission has continued to include the project-level descriptions that are required of AltaGas for projects that were completed without an approved forecast and for projects that have been deferred. For projects that were previously approved for 2017 and completed in 2017, which constitute the majority of the projects in the application, AltaGas continued to provide project-level descriptions for all projects, in accordance with the variance threshold definition determined, as set out in Section 4.2 of this decision. Although the Commission applied the same rigour as for all other projects in its assessment of prudence, for purposes of brevity and to streamline the present decision, the Commission has only included variance descriptions at the program level for these projects.

37. In previous capital tracker decisions, the Commission has assessed and issued directions to AltaGas regarding forecast accuracy. AltaGas indicated that it has acknowledged the Commission's directions, provided updates on improvements made to date, and committed to proactive and ongoing improvements to its forecast accuracy going forward. Consistent with the comments provided in Section 4.4 of Decision 22710-D01-2017, the Commission is satisfied with the information provided by AltaGas on its ongoing process improvement initiatives related to the forecasting of capital projects. In addition, the 2017 capital tracker true-up is the last proceeding dealing with capital trackers and forecast variances during the 2013-2017 PBR term. With the implementation of the 2018-2022 PBR plans, effective January 1, 2018, the transition to indexed capital under the K-bar mechanism results in a reduction in emphasis on forecast accuracy. For the above reasons, the Commission has not provided any additional comments or directions with respect to AltaGas's forecasting methodology or accuracy at this time.

5 Summary of programs included in the 2017 capital tracker true-up

38. AltaGas has three programs for which it has previously received capital tracker treatment approval: Pipeline Replacement, Station Refurbishment and Gas Supply. As part of the 2017 capital tracker true-up, AltaGas applied for a number of projects under these programs, most of which were previously approved for capital tracker treatment on a forecast basis in Decision 20522-D02-2016 and Decision 21380-D01-2016.[23] These projects are assessed in Section 7 below.

Rule 005 in "Finance and operations reports," entitled "2017-Finance-AltaGas_distribution" http://www.auc.ab.ca/regulatory_documents/Pages/finance_and_operations.aspx.

[23] Decision 21380-D01-2016: AltaGas Utilities Inc., Compliance Filing to Decision 20522-D02-2016 (2014 Capital Tracker True-Up and 2016-2017 Capital Tracker Forecast), Proceeding 21380, May 19, 2016.

39. The programs included in the 2017 capital tracker true-up and the variance from approved forecast, resulting in a K factor true-up for 2017, are set out in the table below.

Table 1. 2017 K factor true-up and adjustments

Program name	2017 approved forecast K factor	2017 actual K factor	K factor true-up
		($)	
Pipeline Replacement	6,703,659	6,108,230	(595,429)
Station Refurbishment	1,165,421	1,228,962	63,541
Gas Supply	428,124	344,751	(83,373)
	8,297,204	**7,681,943**	**(615,261)**
Carrying costs			(28,914)
2017 K factor total			**(644,176)**

5.1 Pipeline Replacement Program

40. The Pipeline Replacement Program is a multi-year program that provides for the replacement of three types of pipe: pre-1957 steel pipe, polyvinylchloride (PVC) pipe, and noncertified and interim-certified polyethylene (PE) (collectively referred to as non-certified PE) pipe.[24] The Pipeline Replacement Program was first approved in Decision 2012-091, for the 2010-2012 test period. The need for this program, as part of the project assessment under capital tracker Criterion 1, was approved in Decision 2013-435 for 2013. It was also approved for 2014 and 2015 forecast capital tracker purposes in Decision 2014-373,[25] and for 2016 and 2017 forecast capital tracker purposes in Decision 20522-D02-2016.

5.2 Station Refurbishment Program

41. The Station Refurbishment Program is also a multi-year program that provides for partial, through to complete, replacement of a particular station. The Station Refurbishment Program was first approved in Decision 2012-091, for the 2010-2012 test period. The need for this program, as part of project assessment under capital tracker Criterion 1, was approved in Decision 2013-435 for 2013. It was also approved for 2014 and 2015 forecast capital tracker purposes in Decision 2014-373, and for 2016 and 2017 forecast capital tracker purposes in Decision 20522-D02-2016.

5.3 Gas Supply Program

42. The Gas Supply Program is also a multi-year program that ensures safe, continuous gas supply to customers. The Gas Supply Program was first approved in Decision 2012-091 for the 2010-2012 test period. The need for this program, as part of project assessment under capital tracker Criterion 1, was approved in Decision 2013-435 for 2013 as a capital tracker program. It was also approved for 2014 and 2015 forecast capital tracker purposes in Decision 2014-373, and for 2016 and 2017 forecast capital tracker purposes in Decision 20522-D02-2016.

[24] Both non-certified and interim certified PE pipe pose identical risks and their replacement is managed in the same way. AltaGas refers to this pipe, collectively, as "non-certified PE."

[25] Decision 2014-373: AltaGas Utilities Inc., 2014-2015 Capital Tracker Application and 2013 Capital Tracker True-up Application, Proceedings 3152 and 3244, Applications 1610446-1 and 1610600-1, December 24, 2014.

6 Grouping of projects for capital tracker purposes

43. In Decision 2013-435, the Commission determined that the accounting test and the first tier of the materiality test would be applied to the approved groupings (i.e., either at a project or at a program level). When necessary, however, the Commission would consider the individual component projects comprising the approved groupings in order to assess the need for the capital expenditures and the reasonableness of the forecast costs. The second tier of the materiality test is applied at the level of all capital tracker projects, in the aggregate.[26] The Commission also determined that the reasonableness of the grouping of capital projects would be assessed on a case-by-case basis for each individual company.[27]

44. In this application, for its three programs, AltaGas used the same approach to grouping that was approved by the Commission in previous capital tracker decisions. AltaGas also included in its application, as directed in paragraph 50 and Appendix 3 of Decision 3558-D01-2015, in Excel format with linked and working formulas, the actual capital additions for all programs, including supporting calculations and a breakdown of the amount of depreciation, overheads and income tax allocated to each capital tracker program and non-capital tracker program reconciled to the total amount of depreciation, overheads and income tax for all projects and programs. AltaGas also provided a description of its 2016 non-capital tracker projects and programs, showing the 2016 actual capital additions to provide a better understanding of its proposed groupings of the capital projects and programs for which it was seeking capital tracker treatment.[28]

45. The CCA and UCA did not object to any of the groupings for the projects proposed by AltaGas in this proceeding.

Commission findings

46. As set out in Section 4 of this decision, given that the groupings in the application are the same as those previously approved, the Commission did not re-evaluate those groupings in this decision.

47. The Commission has also reviewed AltaGas's description of the nature, scope and timing of non-capital tracker projects, as provided for better understanding of the proposed grouping of capital projects and programs for capital tracker treatment, in accordance with the Commission's direction at paragraph 50 of Decision 3558-D01-2015 (and also summarized in Appendix 3 of that decision), and finds that AltaGas has complied with this direction.

7 Assessment of individual projects within programs under Criterion 1

48. As discussed in Section 4 of this decision, the actual results for each of AltaGas's individual projects within its three capital tracker programs proposed for capital tracker treatment for 2017 have been evaluated against the project assessment requirements of Criterion 1. Under

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[26] Decision 2013-435, paragraph 407.
[27] Decision 2013-435, paragraph 406.
[28] Exhibit 23623-X0001, application, Appendix II, Non-capital tracker projects and programs; Exhibit 23623-X0006, Appendix VI - 2017 Capital Tracker True-Up Financial Schedules, schedules 10.0 and 10.1.

this component of Criterion 1, the Commission assesses whether the actual scope, level, timing and costs of the project are prudent.

49. The Commission also evaluated whether, with respect to each project or program, AltaGas provided business cases, engineering studies, cost-related information, and related evidence and argument to demonstrate compliance with each of the project assessment minimum filing requirements. However, in this decision, the Commission commented only on those aspects of the minimum filing requirements that AltaGas either failed to comply with, or did not satisfactorily comply with, or that were otherwise raised as an issue in the proceeding.

50. The assessment in this decision has been set out by the capital tracker program. Sections 7.1, 7.2 and 7.3 address the Pipeline Replacement Program, Station Refurbishment Program and Gas Supply Program, respectively.

7.1 Pipeline Replacement Program

51. As set out in Section 5 of this decision, the Pipeline Replacement Program provides for the replacement of three types of pipe: pre-1957 steel pipe, PVC pipe, and non-certified PE pipe. Sections 7.1.1 to 7.1.3 below deal with each of these pipe replacement activities. Section 7.1.4 addresses trailing costs for all of the projects in the Pipeline Replacement Program.

7.1.1 Pre-1957 Steel

52. AltaGas provided approved forecast and actual costs, and pipeline length (km) and unit cost (total cost per km) data for each of the pre-1957 steel projects. This information is reproduced in the following table.

Table 2. Pipeline Replacement Program (Pre-1957 Steel Pipe) – 2017 actual versus approved forecast capital costs, and variances by project

	Capital additions ($)			Pipe length (km)			Unit cost ($/km)		
Pre-1957 Steel	Approved[29]	Actual	Actual vs. approved variance	Approved	Actual	Actual vs. approved variance	Approved[30]	Actual	Actual vs. approved variance
Approved for 2016 and completed in 2017									
2016 Barrhead (town)	2,559,586	3,270,241	(710,655)	8.9	10.5	(1.7)	288,655	310,830	(22,175)
2016 Westlock HP Steel (town)	452,059	602,916	(150,857)	1.5	2.3	(0.8)	309,418	263,282	46,136
2016 Morinville HP Steel (rural)	305,938	838,256	(532,318)	1.6	1.6	0.1	196,744	512,695	(315,951)
2016 Drumheller HP Supply Line (town)	738,557	1,781,079	(1,042,522)	4.0	4.6	(0.6)	182,856	388,543	(205,687)
Approved for 2017 and completed in 2017									
Barrhead (town)	3,584,499	3,405,371	179,128	11.7	10.7	1.1	305,090	319,483	(14,393)
Approved for 2017 and deferred									

29 The Commission notes that in the application AltaGas rounded the capital additions amounts that were approved in Decision 20522-D02-2016. The Commission has changed AltaGas's numbers to the approved amounts.

30 The Commission notes that in the application AltaGas rounded the unit cost amounts that were approved in Decision 20522-D02-2016. The Commission has changed AltaGas's numbers to the approved amounts.

	Capital additions ($)			Pipe length (km)			Unit cost ($/km)		
Pre-1957 Steel	**Approved[29]**	**Actual**	**Actual vs. approved variance**	**Approved**	**Actual**	**Actual vs. approved variance**	**Approved[30]**	**Actual**	**Actual vs. approved variance**
Hanna HP Steel (town)	490,025	-	490,025	1.6	-	1.6	311,364	-	311,364
Stettler HP Supply Line (town)	1,499,884	-	1,499,884	5.5	-	5.5	271,571	-	271,571
Hanna HP Supply Line (rural)	3,204,657	-	3,204,657	17.6	-	17.6	182,425	-	182,425
Hanna Area 2 (town)	5,978,324	-	5,978,324	18.7	-	18.7	319,014	-	319,014
Approved for 2016 and deferred to 2018									
2016 Pickardville HP Supply line (rural)	1,850,765	-	1,850,765	10.4	-	10.4	178,542	-	178,542
Trailing costs	-	(6,224)	6,224						
Total	**14,757,389**	**9,891,639**	**4,865,750**	**55.2**	**29.7**	**25.5**			

Source: Exhibit 23623-X0001, application, Table 2.2.1-1, paragraphs 90 and 98.

53. In Decision 20522-D02-2016, the Commission approved five Pre-1957 Steel Pipe Replacement projects for 2017, for a total of 55.2 km at a cost of $14.76 million. As shown in Table 2 above, AltaGas completed five Pre-1957 Steel Pipe Replacement projects in 2017 totalling 29.7 km at a cost of $9.89 million. That is, AltaGas replaced 25.5 km (or 46.20 per cent) less pipe than forecast, with a resulting cost variance of $4.87 million (or 32.97 per cent) below forecast.

54. AltaGas explained that, of the five projects, four were previously approved in 2016 (Barrhead (2016), Westlock HP Steel, Morinville HP Steel, and Drumheller HP Supply Line), and that one project was approved for completion in 2017 (Barrhead (2017)).[31] The remaining five pre-1957 steel projects in Hanna, Pickardville and Stettler were deferred for completion in 2018 and subsequent years due to internal and external labour resource constraints arising from the deferral of 2016 projects to 2017.[32]

55. For projects that were approved in 2016 but completed in 2017, AltaGas explained it installed 3.1 km more pipe than included in 2016 approved forecasts and that actual costs were $2.4 million higher. Additional pipe lengths were driven by final routing alignment requirements due to third-party issues. AltaGas further explained that there were limitations to the estimating approach used, which did not properly capture project-specific factors.

56. The Barrhead (town) project was deferred from 2016 due to wetter than normal weather conditions in 2016 and the need for additional work on the Drumheller projects (Phase 2 through 6), causing contractor and resource constraints.[33] AltaGas explained that a large portion of the additional costs versus forecast for the Barrhead (town) project were attributable to the replacement of 1.7 km more pipe than forecast, which was caused by the need to meet safety and

31 Exhibit 23623-X0001, application, paragraph 92.
32 Exhibit 23623-X0001, application, paragraph 93.
33 Exhibit 23623-X0001, application, paragraph 95.

code requirements. In addition, additional small sections of pipe were required to replace pipe that had been improperly coded in its geographic information system.[34]

57. The Westlock HP Steel (town) project was also deferred from 2016 due to the wetter than normal weather conditions in 2016 and the additional work required on the Drumheller projects (Phase 2 through 6).[35] AltaGas explained that the majority of the additional costs over forecast were attributable to the installation of an additional 0.8 km of pipe after consultations with the Town of Westlock and property developers in the area. In addition, the actual material costs were higher than forecast due to a larger pipe diameter required.[36]

58. The Morinville HP Steel (rural) project was deferred from 2016 due to delays in obtaining right-of-way agreements between AltaGas, Sturgeon County and the Town of Morinville.[37] AltaGas explained that the unit cost of this project was higher than forecast due to smaller pipe diameters used in its forecast but a larger diameter 6” pipe was subsequently needed to accommodate flow demands to a new recreation facility, as well as higher tendered costs for its third party contractors.[38]

59. The Drumheller HP Supply Line (town) project was $205,600 per km higher than forecasted, or $1.04 million in actual costs. AltaGas explained that the approved forecast was based on limited historical data for HP steel replacements which were not reflective of actual 2017 pipe rates available through competitive bids.[39] Materials, third party contractor, and tendered contractor costs were higher due to required environmental studies and an increase in overall pipe installed.[40]

60. The UCA submitted that the capital expenditures for five 2016 and 2017 Pre-1957 Steel Pipeline Replacement projects that were approved by the Commission on a forecast basis for completion in 2016 or 2017 and subsequently deferred to 2018 and beyond appear, correctly, to not have been included in AltaGas’s requested actual 2017 capital tracker costs and the capital tracker K-factor calculations. However, to be sure, the UCA requested confirmation.[41]

61. In response, AltaGas provided the following confirmation:

> AUI confirms there are no actual capital additions related to the five pre-1957 steel projects reflected in its Application. For reference, Table 2.2.1-1, Line 18, of the Application reflects a total of $9.89 million in 2017 capital additions that excludes the five projects, and is consistent with Schedule 4.0 of the Financial Schedules (Lines 3, 10, 15). Consequently, AUI has provided a refund to customers as a 2017 K factor true-up adjustment included in the pipe replacement program (Schedule 1.0, Line 1, Column K Factor True-Up).[42] [footnotes deleted]

34 Exhibit 23623-X0001, application, paragraph 101.
35 Exhibit 23623-X0001, application, paragraph 95.
36 Exhibit 23623-X0001, application, paragraphs 105 and 107.
37 Exhibit 23623-X0001, application, paragraph 95.
38 Exhibit 23623-X0001, application, paragraphs 111-112.
39 Exhibit 23623-X0001, application, paragraph 114.
40 Exhibit 23623-X0001, application, paragraphs 115-117.
41 Exhibit 23623-X0036, UCA argument, paragraphs 2-5.
42 Exhibit 23623-X0040, AltaGas reply argument, paragraph 4.

7.1.2 PVC

62. AltaGas provided approved forecast and actual costs, and pipeline length (km) and unit cost (total cost per km) data for each of the PVC Pipe projects. This information is reproduced in the following table.

Table 3. Pipeline Replacement Program (PVC Pipe) – 2017 actual versus approved forecast capital costs, and variances by project

	Capital additions ($)			Pipe length (km)			Unit cost ($/km)		
PVC	Approved[43]	Actual	Actual vs. approved variance	Approved	Actual	Actual vs. approved variance	Approved[44]	Actual	Actual vs. approved variance
Approved for 2017 and completed in 2017									
Leduc Area 10A (rural)	598,585	666,899	(68,314)	7.1	9.2	(2.1)	84,870	72,837	12,063
Leduc Area 10B (rural)	1,647,412	1,690,991	(43,579)	20.8	21.3	(0.5)	79,271	79,449	(149)
Leduc Area 7 (rural)	204,659	382,164	(177,505)	2.8	3.5	(0.7)	74,179	109,754	(35,575)
Westlock Area 2 (rural)	2,781,069	2,606,400	174,669	37.2	38.5	(1.3)	74,812	67,616	7,196
Westlock Area 1 (rural)	1,549,317	1,459,332	89,985	19.9	18.7	1.1	78,023	77,874	149
Westlock Area 3 (rural)	917,664	910,468	7,196	11.7	13.2	(1.5)	78,483	69,127	9,356
Approved for 2017 and deferred									
Leduc Area 6 (rural)	149,393	-	149,393	2.0	-	2.0	74,510	-	74,510
Westlock Rural (Remainder) (rural)	763,894	-	763,894	8.6	-	8.6	88,978	-	88,978
Barrhead Rural (Remainder) (rural)	1,064,352	-	1,064,352	13.5	-	13.5	78,829	-	78,829
Barrhead Area 5 (rural)	665,656	-	665,656	8.0	-	8.0	83,280	-	83,280
Trailing costs	-	9,611	(9,611)						
Total	**10,342,001**	**7,725,865**	**2,616,136**	**131.4**	**104.4**	**27.0**			

Source: Exhibit 23623-X0001, application, Table 2.3.1-1, paragraph 139.

63. In Decision 20552-D02-2016, the Commission approved 10 PVC Pipe Replacement projects for 2017 for a total of 131.4 km at a cost of $10.34 million. As shown in Table 3 above, AltaGas only completed six of those projects, or 104.4 km of pipe at a cost of $7.73 million dollars. AltaGas replaced 27.0 km (or 20.55 per cent) less pipe than forecast, with a resulting cost variance of $2.62 million.

64. AltaGas explained that, on an actual basis, for the six projects completed, 104.4 km of pipe was installed whereas the approved forecast for those projects was 93.3 km. An additional

43 The Commission notes that in the application AltaGas rounded the capital additions amounts that were approved in Decision 20522-D02-2016. The Commission has changed AltaGas's numbers to the approved amounts.

44 The Commission notes that in the application AltaGas rounded the unit cost amounts that were approved in Decision 20522-D02-2016. The Commission has changed AltaGas's numbers to the approved amounts.

6.2 km of pipe was installed based on final routing alignment requirements to address third party issues, above ground obstructions, as well as land acquisition issues. This amount was offset by a reduction of 1.1 km identified in Westlock Area 3, as there was certified PE pipe in that area that did not need to be replaced.[45]

7.1.3 Non-Certified PE

65. AltaGas provided approved forecast and actual costs, and pipeline length (km) and unit cost (total cost per km) data for each of the Non-Certified PE Pipe projects. This information is reproduced in the following table.

Table 4. Pipeline Replacement Program (Non-Certified PE Pipe) – 2017 actual versus approved forecast capital costs, and variances by project

	Capital additions ($)			Pipe length (km)			Unit cost ($/km)		
Non-Certified PE	Approved[46]	Actual	Actual vs. approved variance	Approved	Actual	Actual vs. approved variance	Approved[47]	Actual	Actual vs. approved variance
Approved for 2014, remaining work									
2014 Ma-Me-O Beach (village)	-	246,352	(246,352)	0	1.7	(1.7)	141,600[48]	141,990	(390)
Approved for 2017 and completed in 2017									
Irvine (rural)	344,924	286,859	58,065	3.5	3.5	0	96,753	80,263	16,537
Peace Hills Heights (rural sub)	393,870	466,613	(72,743)	2.7	1.8	0.9	144,116	258,225	(114,125)
Rural Sub 34 (rural sub)	477,581	304,928	172,653	3.8	1.7	2.1	124,988	177,594	(52,594)
Helm (rural sub)	193,833	208,038	(14,205)	1.0	1.5	(0.5)	197,587	139,905	57,695
King (rural sub)	210,746	159,097	51,649	1.4	0.7	0.7	148,832	219,142	(70,342)
Namao Ridge Estates (rural sub)	779,996	1,268,258	(488,262)	4.8	8.4	(3.6)	162,975	151,560	11,440
Clearwater (rural sub)	178,055	133,434	44,621	0.9	0.8	0.1	198,723	158,097	40,603
Barrhead Area 1 (Mains only) (rural)	1,516,006	1,177,197	338,809	19.1	19.6	(0.5)	79,360	60,169	19,231
Westlock Area 1 (Mains only) (rural)	1,608,630	1,083,115	525,515	20.2	20.6	(0.4)	79,659	52,484	27,216
Westlock Area 2 (Mains only) (rural)	1,994,020	1,187,416	806,604	25.1	21.2	3.9	79,472	56,039	23,461
Not Previously Approved, Completed in 2017									
NCPE – Leduc 22A (rural)	-	181,246	(181,246)	-	2.4	(2.4)	-	75,237	(75,237)

45 Exhibit 23623-X0001, application, paragraph 143.
46 The Commission notes that in the application AltaGas rounded the capital additions amounts that were approved in Decision 20522-D02-2016. The Commission has changed AltaGas's numbers to the approved amounts.
47 The Commission notes that in the application AltaGas rounded the unit cost amounts that were approved in Decision 20522-D02-2016. The Commission has changed AltaGas's numbers to the approved amounts.
48 Based on an AltaGas internal application for expenditure (AFE) in Exhibit 23623-X0001, application, paragraph 189.

Non-Certified PE	Capital additions ($)			Pipe length (km)			Unit cost ($/km)		
	Approved[46]	Actual	Actual vs. approved variance	Approved	Actual	Actual vs. approved variance	Approved[47]	Actual	Actual vs. approved variance
2017 Approved and Cancelled									
Richdale Estates (rural sub)	179,527	-	179,527	1.0	-	1.0	175,149	-	175,149
Trailing costs	-	(1,759)	1,759						
Total	**7,877,188**	**6,700,793**	**1,176,394**	**83.6**	**84.1**	**(0.4)**			

Source: Exhibit 23623-X0001, application, Table 2.4.1-1, paragraph 189.

66. In Decision 20522-D02-2016, the Commission approved 11 Non-Certified PE Pipe Replacement projects for 2017, for a total of 83.6 km at a cost of $7.88 million. As shown in Table 5 above, AltaGas completed 10 Non-Certified PE pipe replacement projects from its 2017 forecast, cancelled one of its 2017 approved projects, and completed work on the 2014 Ma-Me-O Beach Project as well as adding one project that was not previously approved, Leduc 22A. Therefore, AltaGas replaced 84.1 km of pipe which was 0.4 km (or 0.60 per cent) above forecast, with a resulting cost variance of $1.18 million (or 14.93 per cent) above forecast.

67. The 2014 Ma-Me-O Beach Project was previously approved for capital tracker treatment in Decision 2014-373 as part of AltaGas's 2014 capital tracker program, and consisted of 7.9 km of pipe to be replaced. At the end of 2014, AltaGas was awaiting approvals to complete the last 1.9 km of pipe. In Decision 20522-D02-2016, the Commission approved the true-up for the first part of the 2014 Ma-Me-O Beach Project.[49] At that time, AltaGas estimated that an additional 2.0 km of pipe was required to complete the Ma-Me-O Beach Project. In the application, the project length was reduced from 2.0 km to 1.7 km when the project was moved from the east side to the west side of Highway 13A, resulting in a reduction of project costs.[50] AltaGas provided the amount approved in its AFE process in the absence of its approved forecast.

68. AltaGas explained that the Leduc 22A (rural) project was originally scheduled as part of the larger 31 km Leduc 22 project and was subsequently advanced in the program schedule and completed in 2017 to accommodate customer demand in the area. AltaGas noted that for projects completed but not previously approved on a forecast basis, cost variances and explanations are to be based on the differences between estimates in their AFE process and actuals.[51] AltaGas explained that this approach was approved in Decision 20522-D02-2016 and that, on an actual basis, the costs for the project were $15,800 per km below its AFE amount due to favourable weather, shallower than forecast trenching requirements, and new lower tendered contractor rates.[52]

69. For the cancelled Richdale Estates (rural sub) project previously approved for 2017, AltaGas explained that during an as-built review for the project, it was determined that the non-

49 Decision 20522-D02-2016, paragraph 132.
50 Exhibit 23623-X0001, application, paragraph 202.
51 Exhibit 23623-X0001, application, paragraph 228.
52 Exhibit 23623-X0001, application, paragraph 229.

certified PE pipe was replaced with certified PE pipe in 1987. Therefore, replacement was not required and AltaGas cancelled the project.[53]

Commission findings

70. These Commission findings refer to all three of the pipeline replacement programs discussed in sections 7.1.1, 7.1.2, and 7.1.3 above.

71. In Decision 20552-D02-2016, the Commission approved the need on a forecast basis for each of the Pre-1957 Steel, PVC and Non-Certified PE Pipe Replacement projects listed in tables 2 to 4 above for purposes of capital tracker treatment in 2016 and 2017. The Commission also determined that the proposed scope, level, timing and forecast costs for the approved projects and programs were reasonable.

72. With respect to the true-up of 2017 actual costs, if there is no evidence on the record of the true-up proceeding demonstrating that a project was not required in 2017, then AltaGas is not required to demonstrate that a project was needed in order to provide utility service at adequate levels in 2017. The Commission finds no evidence to indicate that any of the Pre-1957 Steel, PVC and Non-Certified PE Pipeline Replacement projects listed in tables 2 to 4 were not required in 2017.

73. With respect to the scope, level and timing of each of the approved Pre-1957 Steel, PVC and Non-Certified PE Pipe Replacement projects listed in tables 2 to 5 and carried out in 2017, the Commission has reviewed AltaGas's 2017 actual capital additions associated with each of the projects and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case approved in Decision 20522-D02-2016. The Commission has also reviewed the 2017 actual capital additions for each of these projects in light of the evidence supporting these costs, the associated procurement and construction practices and the evidence explaining the differences between approved forecast and actual costs.

74. There are material cost and pipeline length variances between the approved forecast and the actual costs and pipeline lengths for most of the Pre-1957 Steel, PVC and Non-Certified PE Pipe Replacement Program projects. As set out in Section 4.3 above, for purposes of brevity, the Commission has included a description of the variance on a project-by-project basis only for projects that were completed without an approved forecast and for projects that have been deferred. For projects that were previously approved for 2017 (or 2016, in the case of four of the pre-1957 steel projects) on a forecast basis and completed in 2017, the Commission applied the same rigour as for all other projects in assessing prudence but has only included variance descriptions at the program level in this decision.

75. The Commission finds that the information provided by AltaGas supports a finding that the actual scope, level, timing and costs of the work undertaken in 2017 were prudent. Accordingly, the Commission finds that the Pre-1957 Steel, PVC and Non-Certified PE Pipe Replacement programs and each of the associated projects approved on a forecast basis in Decision 20522-D02-2016, as identified in tables 2 to 4, satisfy the project assessment requirement of Criterion 1 for 2017.

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53 Exhibit 23623-X0001, application, paragraph 230.

76. In Decision 2012-237 and Decision 2013-435, the Commission provided that a utility may choose to undertake a capital investment prior to applying for capital tracker treatment. In other words, capital tracker treatment may be granted on the basis of actual capital expenditures, without prior approval of capital forecasts for a project. With respect to the one non-certified PE pipe replacement project (Leduc 22A) that was not approved in Decision 20522-D02-2016, but was undertaken in 2017, the Commission is satisfied with AltaGas's explanation of the need for this project and finds that it was prudent for AltaGas to undertake it.

77. With respect to the scope, level and timing of the work associated with the Leduc 22A project, the Commission has reviewed the 2017 AFE estimate, the 2017 actual capital addition and the variance explanation. For the purposes of this decision, the Commission finds that the information provided by AltaGas regarding this project is generally consistent with the scope, level and timing of the work outlined in the business case approved for the Non-Certified PE Pipe Replacement Program in Decision 2014-373. The Commission has also reviewed the 2017 AFE estimate and actual capital addition for this project in light of the evidence supporting the costs; the associated procurement and construction practices; the evidence explaining the differences between the 2017 AFE estimate and the 2017 actual cost; and the variance explanation for the project.

78. Given the above, the Commission finds that the information provided by AltaGas supports a finding that the actual scope, level, timing and costs of the work undertaken in 2017 for Leduc 22A was prudent. Accordingly, the Commission finds that this project also satisfies the project assessment requirement of Criterion 1 for 2017.

79. Five pre-1957 Steel Pipe replacement projects that were approved in Decision 20522-D02-2016 for completion in 2016 were deferred to 2017. In Decision 22710-D01-2017, the Commission directed AltaGas to provide a reconciliation between the actual and approved forecast costs for these projects as part of the 2017 capital tracker true-up application.[54] Four of those five projects (2016 Barrhead (town), 2016 Westlock HP Steel (town), 2016 Morinville HP steel (rural), and 2016 Drumheller HP Supply Line (town)) were completed in 2017, and the fifth (2016 Pickardville HP Supply line (rural)) was deferred until 2018.

80. For the four projects deferred from 2016 to 2017 and completed in 2017, the Commission finds that the information provided by AltaGas supports a finding that the actual scope, level, timing and costs of the work undertaken in 2017 for these four projects was prudent. Accordingly, the Commission finds that these four projects also satisfy the project assessment requirement of Criterion 1 for 2017.

7.1.4 Pipeline Replacement Program trailing costs

81. The application includes trailing costs incurred in 2014, 2015 and 2016 associated with several pipeline replacement capital tracker projects previously approved on a forecast basis by the Commission in prior capital tracker decisions.

82. AltaGas provided information detailing the 2017 trailing costs for each of the Pre-1957 Steel, PVC, and Non-Certified PE Pipe projects. AltaGas provided trailing costs, the specific year to which those trailing costs relate, trailing cost explanations on a program level and

[54] Decision 22710-D01-2017, paragraph 70.

explanations for projects on an individual level. The Commission has assembled the table below based on the information provided by AltaGas.

Table 5. Pipeline trailing costs

	Cost Component ($)						
Pre-1957 Steel Pipe – project trailing costs	**Labour**	**Other Contractor**	**Land Payments**	**Material**	**Tendered Contractor**	**Overhead**	**Total**
2016 Drumheller – Area 1, 2, 3, 4 (town)	70	(800)	-	(4,535)	61	(271)	(5,474)
2016 Drumheller – Area 5 (town)	1,509	16	-	14,560	(18,620)	(331)	(2,867)
2014 Athabasca (town)	-	-	2,013	-	-	105	2,118
Subtotal	**1,579**	**(784)**	**2,013**	**10,024**	**(18,558)**	**(489)**	**(6,224)**
PVC Pipe – project trailing costs	**Labour**	**Other Contractor**	**Land Payments**	**Material**	**Tendered Contractor**	**Overhead**	**Total**
2016 Leduc Area 2 (rural)	2,310	8,314	(2,502)	533	-	461	9,136
2016 Leduc Area 9 (rural)	5,591	8,798	(12,760)	1,428	11	194	3,260
2016 Morinville Area 3 (rural)	3,474	8	4,824	538	4,044	672	13,560
2016 Morinville Area 4 (rural)	-	(1,147)	-	-	-	(34)	(1,181)
2016 Westlock Area 4 (rural)	4,991	15,126	(35,919)	335	-	(826)	(16,293)
2016 Westlock Area 5 (rural)	4,335	11,073	(2,566)	305	4,825	930	18,901
2015 Leduc Area 3 (rural)	-	-	(1,331)	-	-	(69)	(1,400)
2015 Leduc Area 5 (rural)	(70)	-	(2,980)	-	-	(155)	(3,204)
2015 Leduc Area 8 (rural)	34	845	5,178	-	4,848	562	11,466
2014 Leduc Area 4 (rural)	(421)	-	(18,035)	-	-	(936)	(19,392)
2014 Barrhead Replacement (rural)	(114)	-	(4,876)	-	(253)	-	(5,243)
Subtotal	**20,130**	**43,017**	**(70,967)**	**3,157**	**13,474**	**799**	**9,611**
NCPE Pipe – project trailing costs	**Labour**	**Other Contractor**	**Land Payments**	**Material**	**Tendered Contractor**	**Overhead**	**Total**
2016 Morinville Area 9 (rural)	-	1,273	396	-	-	87	1,755

	Cost Component ($)						
2015 Ashmont	618	(82)	(3,850)	-	-	(200)	(3,514)
Subtotal	**618**	**1,191**	**(3,454)**	**-**	**-**	**(113)**	**(1,759)**
Grand Total	**22,327**	**43,424**	**(72,408)**	**13,181**	**(5,084)**	**197**	**1,628**

Source: Exhibit 23623-X0001, application, paragraphs 134, 176 and 231.

83. In the table above, positive trailing costs are costs invoiced to AltaGas for work or materials required. Negative trailing costs are refunds provided to AltaGas for work that was expected to be done or for materials that were expected to be used but were subsequently not required.

Commission findings

84. At paragraph 113 of Decision 2014-373, the Commission directed AltaGas to identify the specific prior-year projects to which the trailing costs relate, identify the activities that gave rise to the trailing costs, and fully support the prudence of the requested trailing cost amounts. Based on the information provided by AltaGas in support of its trailing costs, the Commission considers that AltaGas has complied with this direction.

85. Further, the Commission has reviewed AltaGas's trailing cost explanations and finds that the trailing costs for projects in the Pipeline Replacement Program, as shown in Table 5 above, were prudently incurred. Accordingly, the Commission approves the inclusion of these trailing costs as part of project total costs for the purposes of the K factor calculation.

7.2 Station Refurbishment Program – PMS, TBS and PRS

86. As discussed in Section 5, the Station Refurbishment Program provides for the replacement or refurbishment of three station types: purchase meter stations (PMS), town border stations (TBS) and post-regulator stations (PRS). AltaGas provided forecast and actual capital costs, the number of stations, and associated variance information for each PMS, TBS and PRS project. This information is reproduced in the following two tables.

Table 6. Station Refurbishment Program – 2017 actual versus approved forecast capital costs, and variances by project

Station type	Project name	2017 approved	2017 actual	2017 actual vs. approved
	($)			
PMS	ST025	303,400	333,641	30,241
PMS	AT105	260,800	289,922	29,122
PMS	LE080	391,000	1,216,630	825,630
PMS	PC022	305,100	-	(305,100)
PMS	WS038[55]	-	407,250	407,250
PMS	AT081	-	435,510	435,510
	Total PMS	**1,260,300**	**2,682,953**	**1,422,653**
TBS	SP098	202,000	85,657	(116,343)
TBS	AT031	217,900	239,529	21,629

55 2016 PMS station projects approved in Decision 20522-D02-2016, section 7.2.4, paragraph 229 table 18 and paragraphs 249-250; WS038: approved forecast $349,700, AT081: approved forecast $322,700.

Station type	Project name	2017 approved	2017 actual	2017 actual vs. approved
TBS	HL004	202,000	-	(202,000)
TBS	SE009	132,600	-	(132,600)
TBS	HL001	218,700	447,516	228,816
TBS	SP265	174,700	248,004	73,304
TBS	TW003	192,400	232,430	40,030
TBS	BO001	294,600	360,091	65,491
TBS	MN002	202,000	303,571	101,571
TBS	DR004	202,000	143,429	(58,571)
TBS	AT007	202,000	193,161	(8,839)
	Total TBS	**2,240,900**	**2,253,389**	**12,489**
PRS	SP277	35,200	-	(35,200)
PRS	SP278	35,200	-	(35,200)
PRS	BA032	35,200	49,685	14,485
PRS	MN009	35,200	9,440	(25,760)
PRS	MN012	35,200	-	(35,200)
PRS	MN032	35,200	36,568	1,368
PRS	MN040	35,200	9,208	(25,992)
PRS	WS010	35,200	74,467	39,267
PRS	WS013	35,200	9,628	(25,572)
	Total PRS	**316,800**	**188,995**	**(127,805)**
	Trailing costs	**-**	**3,815**	**3,816**
	Grand total	**3,818,000**	**5,129,152**	**1,311,152**

Source: Exhibit 23623-X0001, application, page 87, Table 3.4-1.

Table 7. Station Refurbishment Program – 2017 actual versus approved forecast number of stations and variances by station type

Type	2017 approved	2017 actual	2017 approved vs. actual
PMS	4	5	1
TBS	11	9	(2)
PRS	9	6	(3)
Total no. of stations	**24**	**20**	**(4)**

Source: Exhibit 23623-X0001, application, page 87, Table 3.4-1.

87. AltaGas provided variance explanations for each project shown in Table 7 above.[56] In accordance with the Commission's directions in Decision 2014-373,[57] AltaGas's explanations also included the difference in actual costs between a particular station and the standard configuration of a PMS, TBS or PRS and whether it was a replacement or refurbishment.

88. Five PMS projects were completed in 2017, two of which were previously approved for completion in 2016 (stations WS038 and AT081). WS038 was delayed to 2017 due to the scope of the replacement which needed to be expanded to facilitate additional pressure cuts.[58]

56 Exhibit 23623-X0001, application, Section 3.4.
57 Decision 2014-373, paragraphs 280 and 284.
58 Exhibit 23623-X0001, application, paragraph 287.

AT081 was delayed to 2017 due to delays in the finalization of approvals/permits from TransCanada Pipeline Ltd. and the County of Athabasca.[59]

89. PMS station WS038 was approved in 2016 with a forecast of $349,700 and was completed in 2017 with an actual cost of $407,300. AltaGas explained that the increase in the station cost was driven by the need for a larger line heater due to the volume of gas flowing through and the pressures needed for the station. This resulted in an additional $25,007 than forecast. AltaGas also identified the need for a filter system in the design of WS038 that was not originally forecasted, resulting in $30,220 of additional costs over forecast.[60]

90. PMS station AT081 was approved in 2016 with a forecast of $322,700 and was completed in 2017 with an actual cost of $435,700. AltaGas explained that this project included additional internal labour and external contractor costs to improve station access and surface drainage. Also, the increase was caused by the need to incorporate the fabrication and assembly of the PRS that was not included in the approved forecast. Finally, there was also a need to address wet weather and other site conditions as well as higher costs for valves and fittings once the engineering design was completed.[61]

91. AltaGas had forecast station PC022 as a typical PMS replacement but, due to weather delays during the construction season, and given its lower risk score relative to other major station projects being completed in 2017, PC022 was deferred to 2018.[62]

92. With respect to TBS, AltaGas completed only nine of the eleven forecasted stations due to two stations, HL004 and SE009, being retired rather than replaced as originally identified. HL004 was retired due to safety risks that were identified and it was determined that the existing piping between HL001 and HL004 could be de-rated to 50 pounds per square inch gauge in order to continue to provide gas directly to an industrial customer from HL001.[63] Station SE009 was retired because it was found that the station was at the end of its useful life with run-splitting regulators and numerous outdated gate valves that did not meet AltaGas's standards for safety and system reliability. AltaGas determined that the pressure reduction at SE009 could be transferred to PRS-SE115 which is upstream of SE009.[64]

93. AltaGas completed six of the nine forecasted PRS. Two stations were retired and one was deferred to 2018. SP277 and SP278 were assumed to be typical replacements but, after further engineering and design work, AltaGas determined that it would be more prudent to install a new service line from existing underground facilities to the customers that were being supplied from these stations and to retire these two stations.[65] PRS MN012 was initially deferred to 2018 but it was subsequently decided that this station would be retired in 2018 because the distribution system could operate without it.[66]

59 Exhibit 23623-X0001, application paragraph 294.
60 Exhibit 23623-X0001, application, paragraphs 285-291.
61 Exhibit 23623-X0001, application, paragraph 295.
62 Exhibit 23623-X0001, application, paragraph 300.
63 Exhibit 23623-X0001, application, paragraph 309.
64 Exhibit 23623-X0001, application, paragraph 312.
65 Exhibit 23623-X0001, application, paragraphs 347-348.
66 Exhibit 23623-X0001, application, paragraphs 357-358.

Commission findings

94. In Decision 20522-D02-2016, the Commission approved the need, on a forecast basis, for each of the PMS, TBS and PRS projects listed in Table 7 above for purposes of capital tracker treatment in 2016 and 2017. The Commission also determined that the proposed scope, level, timing and forecast costs for the approved projects and programs were reasonable.

95. With respect to the true-up of 2017 actual costs, if there is no evidence on the record of the true-up proceeding demonstrating that a project was not required in 2017, then AltaGas is not required to demonstrate that a project was needed in order to provide utility service at adequate levels in 2017. The Commission finds no evidence to indicate that any of the station replacement and refurbishment projects listed in Table 7 were not required in 2017.

96. With respect to the scope, level and timing of each of the PMS, TBS and PRS station replacement and refurbishment projects carried out in 2017, the Commission has reviewed AltaGas's 2017 actual capital additions associated with each of these projects and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case approved in Decision 20522-D02-2016. The Commission has also reviewed the 2017 actual capital additions for each of these projects in light of the evidence supporting these costs, the associated procurement and construction practices and the evidence explaining the differences between approved forecast and actual costs.

97. There are material cost variances between the approved forecast and the actual costs compared to the standard station configuration for many of the PMS, TBS and PRS projects. As set out in Section 4.3 above, for purposes of brevity, the Commission has included a description of the variances on a project-by-project basis only for projects that were completed without an approved forecast and for projects that have been deferred. For projects that were previously approved for 2017 (or 2016, in the case of PMS - WS038 and AT-081) on a forecast basis and completed in 2017, the Commission applied the same rigour as for all other projects in assessing prudence but has only included variance descriptions at the program level in this decision.

98. The Commission finds that the information provided by AltaGas supports a finding that the actual scope, level, timing and costs of the work undertaken in 2017 were prudent. Accordingly, the Commission finds that the Station Refurbishment Program and each of the associated PMS, TBS and PRS station replacement and refurbishment projects approved in Decision 20522-D02-2016, as identified in Table 7, and carried out in 2017, satisfy the project assessment requirement of Criterion 1 for 2017.

99. Two PMS projects, WS038 and AT 081, were approved in Decision 20522-D02-2016 for completion in 2016 and were deferred to 2017. In Decision 22710-D01-2017, the Commission directed AltaGas to provide a reconciliation between the actual and approved forecast costs for these projects as part of the 2017 capital tracker true-up application.[67]

100. The Commission finds that the information provided by AltaGas supports a finding that the actual scope, level, timing and costs of the work undertaken in 2017 for these two projects was prudent. Accordingly, the Commission finds that these two projects also satisfy the project assessment requirement of Criterion 1 for 2017.

[67] Decision 22710-D01-2017, paragraph 70.

7.2.1 Station Refurbishment Program trailing costs

101. The application includes trailing costs incurred in 2017 associated with four station refurbishment capital tracker projects previously approved on a forecast basis by the Commission in prior capital tracker decisions.

102. AltaGas provided information detailing the 2017 trailing costs for each of the PMS and TBS projects. AltaGas provided trailing costs, the specific year to which those trailing costs relate, trailing cost explanations on a program level and explanations for projects on an individual level. The Commission has assembled the table below based on the information provided by AltaGas.

Table 8. 2017 Station Refurbishment Project trailing costs

Line		AUI labour	Other contractor	Material	Land Payments	Overhead	Total
		($)					
1	2016 PMS AT052	2,667	58,002	(49,474)	-	(1,262)	9,933
2	2016 PMS SE095	-	-	(130)	-	-	(130)
3	2016 TBS BA085	-	(2,007)	343	-	(87)	(1,750)
4	2015 TBS LE090	(92)	-	-	(3,941)	(203)	(4,237)
5	**Total trailing costs**	**2,575**	**55,996**	**(49,261)**	**(3,941)**	**(1,552)**	**3,816**

Source: Exhibit 23623-X0001, application, page 136, Table 3.8.

103. In the table above, positive trailing costs are costs invoiced to AltaGas for work or materials required. Negative trailing costs are refunds provided to AltaGas for work that was expected to be done or for materials that were expected to be used but were subsequently not required.

Commission findings

104. At paragraph 113 of Decision 2014-373, the Commission directed AltaGas to identify the specific prior-year projects to which the trailing costs relate, identify the activities that gave rise to the trailing costs, and fully support the prudence of the requested trailing cost amounts. Based on the information provided by AltaGas in support of its trailing costs, the Commission considers that AltaGas has complied with this direction.

105. Further, the Commission has reviewed AltaGas's trailing cost explanations and finds that the trailing costs for projects in the Station Refurbishment Program, as shown in Table 8 above, were prudently incurred. Accordingly, the Commission approves the inclusion of these trailing costs as part of project total costs for the purposes of the K factor calculation.

7.3 Gas Supply Program

106. As discussed in Section 5, the Gas Supply Program ensures safe, continuous gas supply to customers. For purposes of the 2017 true-up, AltaGas included in this program the Calmar Gas Supply Project actual costs, as discussed in Section 7.3.1. As well, AltaGas included trailing costs for a previously approved gas supply capital tracker project, 2014 St. Paul Cork Hall, discussed in Section 7.3.2.

107. AltaGas provided approved forecast and actual costs, and cost variance information for the project in this program:

Table 9. Gas Supply Program – 2016 actual versus approved forecast capital costs, and variances for the Calmar Gas Supply Project

Gas Supply Project	Approved	Actual	Actual vs. approved variance
		($)	
Calmar	2,071,400	2,387,618	316,218
Trailing costs	-	(2,544)	(2,544)
Total	**2,071,400**	**2,385,074**	**(313,674)**

Source: Exhibit 23623-X0001, application, paragraph 364.

7.3.1 Calmar Project

108. In Decision 20522-D02-2016,[68] the Commission approved a 2017 gas supply placeholder for the Calmar Gas Supply Project in the amount of $2.07 million.

109. AltaGas explained that in 2017 it largely completed the Calmar Gas Supply Project, with the exception of one section of pipe and the retirement of one related station that had to be deferred to a future year due to the inability to acquire the new right-of-way agreements for the new pipe with the City of Leduc and other stakeholders due to pending developments in the area.

Commission findings

110. In Decision 20522-D02-2016, the Commission approved the need on a forecast basis, for the Calmar Gas Supply Project, for purposes of capital tracker treatment in 2017. The Commission also determined that the proposed scope, level, timing and forecast costs for this project was reasonable.

111. With respect to the true-up of 2017 actual costs, if there is no evidence on the record of the true-up proceeding demonstrating that a project was not required in 2017, then AltaGas is not required to demonstrate that a project was needed in order to provide utility service at adequate levels in 2017. The Commission finds no evidence on the record of this proceeding to indicate that the Calmar Gas Supply Project was not required in 2017.

112. With respect to the scope, level and timing of the Calmar Gas Supply Project carried out in 2017, the Commission has reviewed AltaGas's 2017 actual capital additions associated with the project and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case approved in Decision 20522-D02-2016. The Commission has also reviewed the 2017 actual capital additions for this project in light of the evidence supporting these costs, the associated procurement and construction practices and the evidence explaining the differences between approved forecast and actual costs.

113. The cost variance between the approved forecast and the actual cost for the Calmar Gas Supply Project is material and AltaGas provided a detailed variance explanation describing the reasons for the variance.

114. The Commission finds that the information provided by AltaGas supports a finding that the actual scope, level, timing and costs of the work undertaken in 2017 were prudent. Accordingly, the Commission finds that the Calmar Gas Supply Project approved in Decision

[68] Decision 20522-D02-2016, paragraph 300.

20522-D02-2016 and carried out in 2017 satisfies the project assessment requirement of Criterion 1 for 2017.

7.3.2 Gas Supply Program trailing costs

115. The application includes trailing costs incurred in 2014 associated with a gas supply capital tracker project previously approved on a forecast basis by the Commission in a prior capital tracker decision.

116. AltaGas provided information detailing the 2017 trailing costs. AltaGas provided trailing costs, the specific year to which those trailing costs relate, trailing cost explanations on a program level and explanations for the project on an individual level. The Commission has assembled the table below based on the information provided by AltaGas.

Table 10. Gas Supply Program trailing costs

Prior years' project	Labour	Other contractor	Overhead	Total
	($)			
2014 St. Paul Cork Hall	(55)	(2,366)	(123)	(2,544)

Source: Exhibit 23623-X0001, application, paragraph 366.

Commission findings

117. At paragraph 113 of Decision 2014-373, the Commission directed AltaGas to identify the specific prior-year projects to which the trailing costs relate, identify the activities that gave rise to the trailing costs, and fully support the prudence of the requested trailing cost amounts. Based on the information provided by AltaGas in support of its trailing costs, the Commission considers that AltaGas has complied with this direction.

118. Further, the Commission has reviewed AltaGas's trailing cost explanations and finds that there is sufficient evidence on the record of the proceeding to conclude that the trailing costs for projects in the Gas Supply Program, as shown in Table 10 above, were prudently incurred. Accordingly, the Commission approves the inclusion of these trailing costs as part of project total costs for the purposes of the K factor calculation.

8 Accounting test under Criterion 1

8.1 Accounting test for the 2017 true-up

119. As explained in Decision 2013-435, the purpose of the accounting test is to determine whether a project or program (depending on the approved level of grouping) proposed for capital tracker treatment is outside the normal course of the company's ongoing operations. This is achieved by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the program or project.[69]

120. The first component of the accounting test, the calculation of revenue provided under the I-X mechanism, and the second component, AltaGas's calculation of the revenue requirement

[69] Decision 2013-435, paragraphs 149-150.

associated with the 2017 actual capital additions, were provided in the supporting schedules to the application.[70]

121. For the 2017 capital tracker true-up, AltaGas used the following assumptions in its accounting test:

Table 11. AltaGas's 2017 capital tracker true-up accounting test assumptions

2017 I-X index[71]	-1.92%
2017 Q value[72]	1.28%
Weighted average cost of capital (WACC) rate embedded in AltaGas's going-in rates used in the first component of the accounting test	6.708%
Actual 2017 WACC rate used in the second component of the accounting test[73]	6.122%

122. Specifically, the 2017 I-X index of negative 1.92 per cent was approved in Decision 21987-D01-2016.[74] The 2017 Q value of 1.28 per cent was based on a billing determinants forecast approved in the same decision. AltaGas's actual 2017 WACC rate of 6.122 per cent is based on the actual cost of debt of 4.470 per cent, the approved equity thickness of 41 per cent and the approved return on equity (ROE) of 8.5 per cent, as determined in the 2016 generic cost of capital Decision 20622-D01-2016. AltaGas's actual 2017 cost of debt of 4.470 per cent, as reported in its 2017 Rule 005 filing, is a blend of its new 2017 issuances including $10 million of long-term debt with a coupon rate of 3.69 per cent, $20 million long-term debt with a coupon rate of 4.83 per cent, $30 million long-term debt with a coupon rate of 4.99 per cent and rates for six prior debt issues dating back to 2010.

109. No intervener raised issues with any of the above assumptions in AltaGas's accounting test.

Commission findings

123. The Commission has reviewed AltaGas's schedules that make up its accounting test analysis for the purposes of the 2017 capital tracker true-up and finds these schedules to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. The Commission has verified AltaGas's WACC, I-X and Q value assumptions used in the first component of the accounting test, and finds that AltaGas used the correct values.

124. Therefore, the Commission finds AltaGas's 2017 actual WACC of 6.122 per cent used in the second component of its accounting test, based on the 2017 actual cost of debt of 4.470 per cent, as well as the approved equity thickness of 41 per cent and the approved ROE of 8.5 per cent from Decision 20622-D01-2016, to be reasonable.

125. For the reasons above, the Commission is satisfied that AltaGas's accounting test model sufficiently demonstrates that all of the actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the

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70 Exhibit 23623-X0006.
71 Exhibit 23623-X0006, Schedule 9.0.
72 Exhibit 23623-X0006, Schedule 9.0.
73 Exhibit 23623-X0006, 9.1.
74 Decision 21987-D01-2016: AltaGas Utilities Inc. 2017 Annual Performance-Based Regulation Rate Adjustment Filing, Proceeding 21987, December 9, 2016.

accounting test component of Criterion 1. The Commission's determinations on whether AltaGas's programs or projects proposed for capital tracker treatment in 2017 on an actual basis satisfy both the accounting test and the project assessment components of Criterion 1 are set out below.

8.2 Commission's conclusions on Criterion 1

126. In Section 7 of this decision, based on the project assessment under Criterion 1, the Commission approved the scope, level, timing and the prudence of actual capital additions for each ongoing project or program that AltaGas proposed for capital tracker treatment on an actual basis for 2017. In Section 8.1, the Commission determined that all of AltaGas's actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the accounting test component of Criterion 1. Accordingly, the Commission finds that AltaGas's programs or projects proposed for capital tracker treatment in 2017 on an actual basis satisfy the project assessment requirement of Criterion 1.

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

127. As set out in Section 4 of this decision, for the purposes of the true-up of the 2017 capital tracker programs or projects for which the Commission undertook and approved the assessment against the Criterion 2 requirements in Decision 20522-D02-2016, there is no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program has changed. In the application, AltaGas confirmed that there are no changes to the drivers of any of its previously approved capital tracker programs, as shown in Table 12 below.[75]

Table 12. Criterion 2 categories for AltaGas's capital tracker programs

Program name	Criterion 2 category
Pipe Replacement	Replacement
Station Refurbishment	Replacement
Gas Supply	External party driven/replacement

128. The interveners did not raise any issues with AltaGas's programs continuing to satisfy the requirements of Criterion 2.

Commission findings

129. Consistent with the determinations in Section 4 of this decision, because the driver or drivers (e.g., replacement of existing assets, external party, growth) for each project or program included in AltaGas's 2017 capital tracker true-up have not changed since the Commission undertook and approved proposed capital tracker projects and programs against the Criterion 2 requirements in Decision 20522-D02-2016, there is no need to undertake a reassessment of these programs or projects against the Criterion 2 requirements.

[75] Exhibit 23623-X0001, application, responses to AUC directions, Appendix III, paragraph 23.

130. As discussed above, AltaGas has included in the application one pipeline replacement project, NCPE – Leduc 22A (rural), that was not previously applied for on a forecast basis. Given AltaGas's confirmation that there are no changes to the drivers of any of its previously approved capital tracker programs, the Commission is satisfied that this project satisfies the requirements of Criterion 2.

10 Criterion 3 - the project must have a material effect on the company's finances

131. Section 8 of this decision addressed AltaGas's accounting test, which determines whether all of the actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy Criterion 1. This is established by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the program or project proposed for capital tracker treatment.

132. In accordance with the Commission's determinations in Decision 2013-435, the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test, is then assessed against the two-tiered materiality test under Criterion 3. The first tier of the materiality threshold, a "four basis point threshold," is applied at a project level, grouped in the manner approved by the Commission. The second tier of the materiality threshold, a "40 basis point threshold," is applied to the aggregate revenue requirement proposed to be recovered by way of all capital trackers.[76]

133. In Decision 2013-435, the Commission calculated the four basis point threshold and the 40 basis point threshold based on the dollar value of AltaGas's ROE in 2012. The Commission indicated that in subsequent PBR years, the four basis point threshold and the 40 basis point threshold are to be calculated by escalating the 2012 amount by I-X.[77]

134. For the 2017 capital tracker true up, AltaGas used a 2017 four basis point threshold of $31,955 calculated by escalating the 2012 amount by the approved 2013, 2014, 2015, 2016 and 2017 I-X index values. Using the same methodology resulted in a 40 basis point threshold of $319,547 for 2017.[78] AltaGas then assessed each of the capital tracker projects included in the 2017 true-up against the four basis point threshold and the total K factor request against the 40 basis point threshold. AltaGas demonstrated that its proposed capital tracker projects or programs exceed these materiality thresholds for K factor treatment on an actual basis for 2017.[79]

135. No party took issue with AltaGas's calculation of its materiality thresholds under Criterion 3.

Commission findings

136. The Commission has reviewed AltaGas's calculations and is satisfied that AltaGas has interpreted and applied the Criterion 3 two-tiered materiality test correctly for the purposes of its 2017 capital tracker true-up, based on the projects and assumptions included in the application.

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[76] Decision 2013-435, paragraphs 382-385.
[77] Decision 2013-435, paragraphs 378 and 384.
[78] Exhibit 23623-X0006, Schedule 8.1.
[79] Exhibit 23623-X0001, application, paragraph 51; Exhibit 23623-X0006, Schedule 8.0.

The Commission finds that each of AltaGas's proposed capital tracker programs for 2017 exceed the materiality thresholds, and therefore satisfy Criterion 3.

11 Compliance with prior Commission directions

137. In Decision 2013-435, Decision 2014-373, Decision 20522-D02-2016, Decision 21627-D01-2016[80] and Decision 22710-D01-2017, the Commission provided a number of directions to AltaGas that were applicable to its future capital tracker applications or other PBR-related applications. In Decision 3434-D01-2015[81] and in Decision 3558-D01-2015, the Commission also provided clarifications on the capital tracker mechanism and issued a number of related directions to companies under PBR, including AltaGas.

138. AltaGas addressed the Commission's directions, as summarized in Appendix 4 to this decision.[82] AltaGas also provided a summary table of concordance to demonstrate compliance with each of the minimum filing requirements prescribed in Decision 3558-D01-2015.[83]

139. Other than as specifically mentioned in the above sections, no party challenged AltaGas's compliance with these previous directions.

Commission findings

140. The Commission has reviewed AltaGas's responses to the Commission's directions from its previous decisions and is satisfied that AltaGas has complied with these directions in the application.

12 K factor calculations for 2017 true-up

141. As set out in Table 1 in Section 5 of this decision, the 2017 K factor true-up resulting from this application is a $644,176 refund to customers. AltaGas included this K factor true-up amount in its 2019 annual PBR rate adjustment filing, currently under consideration by the Commission in Proceeding 23898.[84]

142. There were no objections to AltaGas's calculation of the 2017 K factor true-up amount.

Commission findings

143. The Commission has reviewed AltaGas's calculations and finds that AltaGas's methodology to determine the 2017 K factor true-up amount satisfies the requirements set out in Decision 2012-237 and Decision 2013-435. The 2017 K factor true-up refund amount of $644,176 is approved. The Commission further approves the refund of this amount through AltaGas's 2019 annual PBR rates.

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80 Decision 21627-D01-2016: AltaGas Utilities Inc. 2015 Capital Tracker True-Up Application, Proceeding 21627, December 7, 2016.
81 Decision 3434-D01-2015: Distribution Performance-Based Regulation, Commission-Initiated Review of Assumptions Used in the Accounting Test for Capital Trackers, Proceeding 3434, Application 1610877-1, February 5, 2015.
82 Exhibit 23623-X0001, Application, Appendix III.
83 Exhibit 23623-X0001, Application, Appendix I.
84 Exhibit 23898-X0001, application, paragraph 180 and Table 3.3.2-1.

13 Service quality and asset monitoring

144. The present 2017 capital tracker true-up application is AltaGas's last annual capital tracker application filed under the 2013-2017 PBR plan. In Decision 20414-D01-2016 (Errata), setting out the parameters of the 2018-2022 PBR plans, the Commission discontinued the capital tracker mechanism in its current form. The Commission provided to the distribution utilities two mechanisms by which to apply for supplemental capital funding. For Type 1 capital, the Commission approved a modified capital tracker mechanism with narrow eligibility criteria. For Type 2 capital, the Commission approved a K-bar mechanism that gives distribution utilities a predetermined amount of incremental capital funding for each year, based on a prescribed historical average of net capital additions made in prior years.

145. The Commission expressed its expectation in Decision 20414-D01-2016 (Errata) that the revised approach to capital funding will ensure that the vast majority of capital will be Type 2 capital managed under K-bar and thus subject to the superior incentive properties of PBR. The amount of incremental K-bar funding received for a year is not linked to any specific project. Under the K-bar mechanism, the utility is free to manage the incremental capital funding as it sees necessary, and can allocate K-bar funding among projects or to operational expenses in managing its business.

146. In Decision 2012-237, the Commission recognized that the adoption of a PBR plan creates incentives to lower costs by accomplishing improvements in productivity, but the Commission also recognized that lower costs can arise at the expense of reductions in service quality.[85] In order to ensure that observed cost reductions were the result of productivity improvements and not reductions in service quality, the Commission emphasized in Decision 20414-D01-2016 (Errata) that there was an ongoing need for sound management of the distribution utilities' physical assets to ensure the continued provision of safe and reliable service during the next generation PBR term and beyond.[86]

147. In Decision 22394-D01-2018,[87] the Commission reiterated the need for sound management by the distribution utilities in carrying out their statutory obligation to provide safe and reliable service, in order to prevent a deterioration in service quality and reliability, given the greater managerial flexibility provided by the introduction of the K-bar mechanism.

148. The Commission's view has not changed since the release of the referenced decisions. The Commission expects that the distribution utilities will manage their capital programs accordingly. To this end, the Commission, in Decision 20414-D01-2016 (Errata), maintained the requirement to file performance metrics reporting through Rule 002,[88] along with asset monitoring reporting over the 2018-2022 PBR term. The distribution utilities submitted asset management reports in 2017 and 2018, which stakeholders reviewed and discussed as part of the Rule 002 annual review meetings. The Commission informed the distribution utilities of the asset management reporting requirements for 2019 on December 10, 2018, by way of an email. The Commission will continue the consultation process in 2019 to finalize the reporting format. In

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85 Decision 2012-237, paragraph 864.
86 Decision 20414-D01-2016 (Errata), paragraph 260.
87 22394-D01-2018: Rebasing for the 2018-2022 PBR Plans for Alberta Electric and Gas Distribution Utilities First Compliance Proceeding, Proceeding 22394, February 5, 2018.
88 Rule 002: *Service Quality and Reliability Performance Monitoring and Reporting for Owners of Electric Distribution Systems and for Gas Distributors.*

addition to providing the Commission and stakeholders with continued monitoring of service quality and reliability, the Commission considers that these tools will support the long-term planning and replacement activities of the distribution utilities to maintain service quality.

149. The Commission also notes that the requirement for separate asset accounting set out in paragraph 863 of Decision 2012-237 continues to apply to the distribution utilities during the 2018-2022 PBR term:

> 863. For a company under PBR, the requirement to file the AUC Rule 005 schedules in both its annual PBR rate adjustment filing and a separate AUC Rule 005 application, does not exempt the company from its obligation to maintain detailed accounts in accordance with the acts, regulations, Commission rules, or Commission decisions applicable to the company. Therefore, unless otherwise directed or exempted by the Commission, the companies are directed to maintain the ability to file a complete set of MFR and GRA schedules with actual results for all years within the term of the company's PBR plan. The companies are not required, however, to file a complete set of MFR and GRA schedules annually.[89]

14 Order

150. It is hereby ordered that:

(1) AltaGas Utilities Inc.'s 2017 K factor true-up refund amount of $644,176 is approved and is to be refunded to customers as part of AltaGas's 2019 annual PBR rates.

Dated on December 18, 2018.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member

[89] Decision 2012-237, paragraph 863.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
AltaGas Utilities Inc. (AltaGas or AUI)
Consumers' Coalition of Alberta (CCA)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP

Alberta Utilities Commission Commission panel N. Jamieson, Commission Member Commission staff J. Graham (Commission counsel) S. Sajnovics (Commission counsel) P. Howard A. Spurrell G. Bourque

Appendix 2 – AltaGas's prior capital tracker-related proceedings

(return to text)

1. Because the 2013 capital trackers proceeding leading to Decision 2013-435[1] was ongoing at the time, in Decision 2013-072,[2] the Commission approved, on an interim basis, a 2013 capital tracker placeholder (K factor) for AltaGas, equal to 60 per cent of the applied-for K factor amount. As a result, AltaGas was directed to include in its 2013 PBR rates, a K factor placeholder of $0.60 million on an interim basis.

2. Interim K factor placeholders were similarly approved by the Commission for each of 2014, 2015, 2016 and 2017. Specifically, in Decision 2013-465, the Commission approved, a 2014 K factor placeholder in the amount of $1.23 million to be included in AltaGas's 2014 PBR rates, based on 60 per cent of the proposed 2014 K factor.[3] In Decision 2014-357, the Commission approved a 2015 K factor placeholder in the amount of $3.14 million to be included in AltaGas's 2015 PBR rates, based on 90 per cent of the proposed 2015 K factor and 100 per cent of the proposed 2013 K factor true-up.[4] In Decision 20823-D01-2015,[5] the Commission approved a 2016 K factor placeholder in the amount of $4.86 million to be included in AltaGas's 2016 PBR rates, based on 90 per cent of the proposed 2016 K factor and 100 per cent of the proposed 2014 K factor true-up.[6] In its 2017 annual PBR rate adjustment application, AltaGas requested a 2017 K factor placeholder in the amount of $8.15 million to be included in its 2017 PBR rates, based on the $8.30 million 2017 forecast K factor approved in Decision 21380-D012016,[7] and the 2015 K factor true-up amount applied for in Proceeding 21627.

3. In Decision 2013-435, the Commission approved AltaGas's forecast projects for capital tracker treatment, for a 2013 K factor forecast amount of $1.03 million, to be recovered from customers on an interim basis pending future true-up proceedings. In Decision 2014-180, the Commission approved the collection by AltaGas of the $0.43 million difference between the 60 per cent placeholder and the approved K factor forecast amount for 2013.[8]

4. Decision 2014-373[9] dealt with AltaGas's 2013 true-up and 2014-2015 forecast capital tracker applications. The 2013 K factor true-up amount and 2014-2015 K factor forecast amounts

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[1] Decision 2013-435: Distribution Performance-Based Regulation, 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.
[2] Decision 2013-072: 2012: Performance-Based Regulation Compliance Filings, AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Proceeding 2130, Application 1608826-1, March 4, 2013.
[3] Decision 2013-465: AltaGas Utilities Inc. 2014 Annual PBR Rate Adjustment Filing, Proceeding 2831, Application 1609923-1, December 23, 2013, paragraphs 99-100.
[4] Decision 2014-357: AltaGas Utilities Inc., 2015 Annual PBR Rate Adjustment Filing, Proceeding 3408, Application 1610838-1, December 18, 2014, paragraph 79.
[5] Decision 20823-D01-2015: AltaGas Utilities Inc., 2016 Annual Performance-Based Regulation Rate Adjustment Filing, Proceeding 20823, December 16, 2015.
[6] Decision 20823-D01-2015, paragraph 65.
[7] Decision 21380-D01-2016: AltaGas Utilities Inc., Compliance Filing to Decision 20522-D02-2016 (2014 Capital Tracker True-Up and 2016-2017 Capital Tracker Forecast), Proceeding 21380, May 19, 2016, paragraph 600.
[8] Decision 2014-180: AltaGas Utilities Inc., 2013 Net Deficiency and Rider F, Proceeding 3055, Application 1610297-1, June 20, 2014.
[9] Decision 2014-373: AltaGas Utilities Inc., 2014-2015 Capital Tracker Application and 2013 Capital Tracker True-up Application, Proceedings 3152 and 3244, Applications.1610446-1 and 1610600-1, December 24, 2014.

were approved in the compliance filing Decision 20176-D01-2015.[10] As set out in that decision, the Commission approved a total 2013 K factor true-up refund amount of $0.27 million. The Commission also approved the 2014 and 2015 forecast total K factor true-up amounts, a collection of $1.98 million and $3.45 million, respectively.

5. In Decision 20695-D01-2015,[11] the Commission approved AltaGas's application to collect a net deficiency of $0.91 million, consisting of a 2013 capital tracker K factor true-up adjustment surplus, a 2014 capital tracker K factor true-up adjustment deficiency and a 2015 capital tracker K factor true-up adjustment deficiency, as determined in Decision 20176-D01-2015.[12]

6. Decision 20522-D02-2016[13] dealt with AltaGas's 2014 true-up and 2016-2017 forecast capital tracker applications. The 2014 K factor true-up amount and 2016-2017 K factor forecast amounts were approved in the compliance filing Decision 21380-D01-2016. As set out in that decision, the Commission approved a total 2013 K factor true-up refund amount of $0.27 million. The Commission also approved the 2014 and 2015 forecast total K factor true-up amounts, a collection of $1.98 million and $3.45 million, respectively.

7. In Decision 21898-D01-2016,[14] the Commission approved AltaGas's application to collect a net deficiency of $0.77 million, consisting of a 2013 Y factor true-up deficiency, a 2014 K factor true-up deficiency, and a 2016 K factor adjustment net deficiency, as determined in Decision 21380-D01-2016.

8. Decision 21627-D01-2016 dealt with AltaGas's 2015 true-up application. As set out in that decision, the Commission approved a total 2015 K factor true-up refund amount of $0.15 million. AltaGas included the $0.15 million in its Proceeding 21987 application and the Commission approved the applied-for amount in Decision 21987-D01-2016.

9. Finally, Decision 22710-D01-2017 dealt with AltaGas's 2016 capital tracker true-up application. As set out in that decision, the Commission approved a total 2016 K factor true-up refund amount of $0.51 million. AltaGas included the $0.51 million in its 2018 annual PBR rate adjustment filing included as part of Proceeding 23355, plus carrying costs of $0.02 million for a total 2016 K factor true-up refund amount of $0.53 million. The Commission approved the applied-for amount of $0.53 million in Decision 23355-D01-2018.[15]

[10] Decision 20176-D01-2015: AltaGas Utilities Inc., Compliance Filing Pursuant to Decision 2014-373 (2014-2015 Capital Tracker Forecast and 2013 Capital Tracker True-up), Proceeding 20176, June 25, 2015.

[11] Decision 20695-D01-2015: AltaGas Utilities Inc., 2015 Net Deficiency and Rider F, Proceeding 20695, September 24, 2015.

[12] Decision 20176-D01-2015: AltaGas Utilities Inc. Compliance Filing Pursuant to Decision 2014-373 (20142015 Capital Tracker Forecast and 2013 Capital Tracker True-up), Proceeding 20176, June 25, 2015.

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

[14] Decision 21898-D01-2016: AltaGas Utilities Inc. 2016 Net Deficiency and Rate Rider F, Proceeding 21898, September 14, 2016.

[15] Decision 23355-D01-2018: April 1, 2018 Interim Distribution Rates for each of AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., ENMAX Power Corporation, EPCOR Distribution & Transmission Inc., and FortisAlberta Inc., Proceeding 23355, March 23, 2018.

Appendix 3 – AltaGas's compliance with prior Commission directions

(return to text)

	Decision reference	Direction	Application reference
1	Decision 2013-435,[1] paragraph 1074	Given that annual actual capital expenditure information may not be publically available until the May AUC Rule 005 filings, the Commission is modifying the direction set out in paragraph 975 of Decision 2012-237 requiring the inclusion of a true-up of the costs of capital tracker projects that have been completed since the prior year's capital tracker filing in the annual March 1 capital tracker application. Commencing in 2015, the companies shall file by May 15th in each year a separate application to true-up the costs of capital tracker projects that have been completed since the prior year's capital tracker filing. For all capital tracker projects that have not been completed, the companies shall also file actual expenditures to December 31of the prior year and a forecast to completion. The companies shall continue to file their capital tracker applications for the upcoming year by March 1 of the preceding year.	Exhibit 23623-X0001, Attachment 1, 2017 Capital Tracker Project Status Directive, provides the 2017 additions, including direct and overhead components and variance calculations. The total costs are also provided, including direct and overhead components, incurred in 2017 and forecast for 2018, in relation to projects approved for completion in 2017, but deferred to 2018.
2	Decision 2014-373,[2] paragraph 113	In order to demonstrate the prudence of the trailing costs, the Commission agreed with the UCA that the company should be required to show the prior year trailing costs clearly in its capital tracker true-up applications. In future capital tracker true-up applications, the Commission directed AltaGas to identify the specific prior-year projects to which the trailing costs relate, identify the activities that give rise to the trailing costs, and fully support the prudence of the requested amounts.	Exhibit 23623-X0001, application: 2017 Pipe Replacement Program: • Section 2.2.6 - Pre-1957 Steel • Section 2.3.4 – PVC • Section 2.4.6 – Non-Certified PE 2017 Station Refurbishment Program: • Section 3.8 - Stations 2017 Gas Supply Program: • Section 4 – Gas Supply

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

2 Decision 2014-373: AltaGas Utilities Inc., 2014-2015 Capital Tracker Application and 2013 Capital Tracker True-up Application, Proceedings 3152 and 3244, Applications1610446-1 and 1610600-1, December 24, 2014.

	Decision reference	Direction	Application reference
3	Decision 2014-373, paragraph 115	The Commission accepted AltaGas's explanation for the gas supply trailing costs, and found these trailing costs to have been prudently incurred. Given that the remaining costs are immaterial, the Commission was willing to approve the unexplained trailing costs for the purposes of this decision. However, in future applications, AltaGas was directed to provide the justifications for all trailing costs identified in the application.	Same as above reference
4	Decision 2014-373, paragraph 146	The Commission noted that the Morinville (five km) project was completed in 2013 below the forecast approved in Decision 2013-435. A variance explanation was not provided. Given that the project was completed under budget, the Commission approved this project, as filed. However, for the purposes of achieving symmetry in cost variance explanations, the Commission directed AltaGas, in future capital tracker true-up applications, to explain negative variances that exceed the company's variance threshold of $10,000 or 10 per cent.	Exhibit 23623-X0001, application: • Section 1.7.1 AltaGas has used AUC Rule 005 as a guideline in establishing thresholds for project variance explanations for both positive and negative variances, similar to those approved by the Commission in Decision 22710-D01-2017.
5	Decision 2014-373, paragraph 247	With regards to stations PMS-BO002 & AT036, the Commission noted that the variances were primarily due to actual costs incurred in 2012 as work in progress, but not reflected as 2013 forecast capital additions. The Commission accepted that this was a forecasting oversight and approved the costs of the stations as filed in the application. However, for future applications, the Commission directed AltaGas to be mindful in accounting for all work in progress in forecast capital additions along with detailed information justifying the costs.	Exhibit 23623-X0001, application. AltaGas included work in progress in forecast capital additions.

	Decision reference	Direction	Application reference
6	Decision 2014-373, paragraph 280	The Commission was in agreement with the CCA that the explanations were lacking in detail, making it difficult to assess the reasonableness of the costs. Therefore, in future capital tracker applications, when there is a difference in forecast or actual costs between a particular station and the standard station, AltaGas was directed to include a table similar to the one provided in AUC-AUI-11 showing the build-up of project costs for each station and comparing it to the build-up of project costs in a standard station. The Commission also directed AltaGas to include information that explained the difference between the variance in costs from a standard station.	Exhibit 23623-X0001, application: • Sections 3.5 - 3.7 Exhibit 23623-X0003, Attachment 2, Stations Refurbishment vs Replacement: A comparison of standard, forecast and actual stations by year and station type.
7	Decision 2014-373, paragraph 284	AltaGas's 2014 and 2015 forecast capital additions associated with this program were provided in tables 24 and 25. The Commission reviewed the information supporting AltaGas's forecasts and generally found the individual project and total annual cost forecast to be reasonable. However, since the scope of each station refurbishment or replacement varied, where in some cases regulators and valves were replaced, while in others, the entire above-ground facilities required replacement, the Commission found that the alternatives for replacement or refurbishment, including all costs, should be explored in the business case for each station so that the Commission was assured that each station was being refurbished or replaced prudently. For each of the 2014-2015 station refurbishments or replacements, AltaGas was directed to provide this type of information in the applications where the costs are trued-up to actual.	Exhibit 23623-X0001, application: • Sections 3.5 - 3.7 Exhibit 23623-X0003, Attachment 2, Stations Refurbishment vs Replacement: Summary of the rationale for replacement versus refurbishment, on a forecast and actual project basis.

	Decision reference	Direction	Application reference
8	Decision 2014-373, paragraph 308	AltaGas's 2014 forecast capital additions associated with the gas supply program were $3.64 million. AltaGas's 2015 forecast capital additions associated with this program were provided in Table 28. The Commission reviewed the information supporting AltaGas's forecasts and generally found the individual projects and total annual cost forecast were reasonable. However, the Commission considered that the cost of these gas supply projects were considerable and, therefore, the Commission required additional detail in the future. Although the projects tended to be unique in nature, for future applications the Commission directed AltaGas to provide information describing how the project costs compared to similar projects over at least the last five years, and to break down the forecast costs into unit costs for gas supply, similar to that addressed in the pipeline replacement and station refurbishment sections above, and for any other categories of work that AltaGas deemed to be relevant in explaining the project.	Exhibit 23623-X0004, application, Attachment 3, Comparison of Actual and Forecast Additions
9	Decision 2014-373, paragraph 345	In subsequent capital tracker true-up applications, the Commission directed AltaGas to address whether the driver for any of the previously approved forecast projects or programs had changed, so as to warrant a reassessment under Criterion 2. In the event that the driver of the project or program had changed since the forecast project or program was approved, AltaGas was directed to identify such projects and programs and to provide evidentiary support that the project or program continued to satisfy the requirements of Criterion 2.	Exhibit 23623-X0001, application: • Section 1.3

	Decision reference	Direction	Application reference
10	Decision 2014-373, paragraph 391	In future capital tracker applications, to demonstrate the reasonableness and prudence of overhead costs, AltaGas was directed to provide its overhead calculations separately, identifying a line item for each of the specific items indicated in its response to CCA-AUI-2(b) in Proceeding No. 3244. The company was also directed to be prepared to explain any significant year-over-year changes in the items that made up the overhead pool. To the extent that a company limits the year-over-year increases to an item in the overhead pool to I-X, as AltaGas had done with inter-affiliate costs, the Commission considered that to be a reasonable approach for capital tracker purposes. However, a company was not required to limit its increases to its overhead items to I-X if it could demonstrate that an increase in excess of this amount was prudent.	Exhibit 23623-X0001, application: • Section 1.7.2 Exhibit 23623-X0006, Appendix VI – Financial Schedules: • Schedule 9.3
11	Decision 3434-D01-2015, paragraph 89	In Section 3.2 of Decision 3434-D01-2015, the Commission directed the companies to use their forecast cost of embedded debt in calculating the forecast revenue requirement associated with a proposed capital tracker in the second component of the accounting test, to reflect the correct funding requirements associated with expenditures made on capital tracker projects. Similarly, the Commission found that the forecast cost of embedded debt should be trued-up to the actual cost of embedded debt incurred by the utility in the year for which the capital tracker was approved. The Commission agreed with Calgary that the embedded debt rate used in the second component of the accounting test in the true-up process should match the rate that appears on the company's Rule 005 filing from the associated year, and if it does not match, the Commission directed the company to provide an explanation of why it does not match, in its capital tracker true-up application.	Exhibit 23623-X0006, Appendix VI – Financial Schedules • Schedule 9.1

	Decision reference	Direction	Application reference
12	Decision 3434-D01-2015, paragraph 92	The Commission directed that in capital tracker true-up applications, for the second component of the accounting test, a company's WACC would reflect the company's current embedded debt rate based on its actual debt issues, and would use the ROE and capital structure for the year, as approved in the most recent Commission decision establishing the deemed ROE and capital structure for the company.	Exhibit 23623-X0006, Appendix VI – Financial Schedules • Schedules 2.0, 2.1, 2.2 and 2.3, Lines 30-33
13	Decision 3558-D01-2015, Appendix 3	**Appendix 3 – Minimum filing requirements:** … the AUC set out the revised minimum filing requirements companies must comply with in their capital tracker true-up and capital tracker forecast applications.	2016 reconciliation: Exhibit 23623-X0005, Attachment 4 to Appendix III, 2016 CCA Reconciliation to CRA Filing. 2017 reconciliation: Exhibit 23623-X0013, 2017 CCA Reconciliation to CRA Filing.
14	Decision 20522-D02-2016, paragraph 83	For projects partially completed in 2014 with outstanding work required to be completed in a future year, the Commission expects AltaGas to provide detailed variance explanations in a future capital tracker true-up application.	Exhibit 23623-X0001, application: • Section 2.4.2. AltaGas provided variance explanations for the remaining section of Ma-Me-O Beach pipe completed in 2017.

	Decision reference	Direction	Application reference
15	Decision 21627-D01-2016, paragraph 35	The Commission reviewed AltaGas's description of the nature, scope and timing of non-capital tracker projects, provided for better understanding of the proposed grouping of capital projects and programs for capital tracker treatment, and found that AltaGas has only partially complied with the direction at paragraph 50 and Appendix 3 of Decision 3558-D01-2015. AltaGas provided, in Excel format with linked and working formulas, the actual capital additions for all programs, including supporting calculations and a breakdown of the amount of depreciation, overheads and income tax allocated to each capital tracker program and non-capital tracker program reconciled to the total amount of depreciation, overheads and income tax for all projects and programs. AltaGas did not provide a description of all non-capital tracker projects or programs that adequately describe, for the purpose of understanding project or program groupings, the nature and purpose of the proposed program. In Appendix I to the application, AltaGas described this non-capital tracker project requirement as "not relevant to the 2015 capital tracker true-up application." Since AltaGas provided these program descriptions in its application for the 2015 forecast capital trackers, for the purposes of this decision, the Commission was willing to dispense with the requirement but reminded AltaGas that, as per page 5 of Appendix 3 to Decision 3558-D01-2015, project descriptions are a minimum filing requirement that need to be included with each capital tracker application for better understanding of the proposed grouping of capital projects and programs for capital tracker treatment. Accordingly, AltaGas was directed to provide a description of all noncapital tracker projects or programs pursuant to the Commission's requirements as set out in Appendix 3 to Decision 3558-D01-2015, at the time of its next capital tracker true-up application.	Exhibit 23623-X0001, application, Appendix II - Description of Non-Capital Tracker Projects and Programs.

	Decision reference	Direction	Application reference
16	Decision 21627-D01-2016, paragraph 300	With respect to previously-approved 2016 or 2017 K factor amounts that have changed as a result of the deferral of the Pickardville line, AltaGas was directed to reflect these changes in its capital tracker true-up applications.	Exhibit 23623-X001, Appendix III, Responses to AUC Directions, Section 1.16. AltaGas confirmed the Pickardville pipeline replacement project deferred from 2016 was not completed in 2017 as planned. Therefore, no costs associated with the project were included for recovery in the 2017 capital tracker true-up application.
17	Decision 22710-D01-2017, paragraph 70	For the five Pre-1957 Steel Pipe replacement projects approved for 2016 and deferred to 2017, the Commission expects AltaGas to provide a reconciliation between the actual and approved forecast costs for these projects as part of the 2017 capital tracker true-up application.	Exhibit 23623-X001, application: • Section 2.2.2
18	Decision 22710-D01-2017, paragraph 87	For the three PMS station replacement projects approved for 2016 and deferred to 2017, the Commission expects AltaGas to provide a reconciliation between the actual and approved forecast costs for these projects as part of the 2017 capital tracker true-up application. The project assessment requirements of Criterion 1 will be assessed by the Commission at that time.	Exhibit 23623-X001, application: • Section 3.5.2

	Decision reference	Direction	Application reference
19	Decision 22710-D01-2017, paragraph 128	The Commission reviewed AltaGas's responses to the Commission's directions that were not specifically addressed in the previous sections of this decision and was generally satisfied that AltaGas had complied with these directions in the application, with one exception: item 1.c. from the revised minimum filing requirements as set out in Appendix 3 to Decision 3558-D01-2015. Under item 1.c., the Commission requires evidence that the capital cost allowance amounts have been reconciled with the amounts filed by AltaGas with the CRA. AltaGas stated, "AUI will submit evidence of reconciliation when 2016 amounts have been filed with the CRA (due June 30, 2017.)" However, similar to the finding and direction made by the Commission at paragraph 373 of Decision 20522D02-2016 and paragraph 310 of Decision 21627-D01-2016, no evidence that the capital cost allowance amounts have been reconciled with the amounts filed with the CRA has been filed on the record of this proceeding. Accordingly, for purposes of regulatory efficiency, AltaGas was directed to fulfill this requirement at the time of its next capital tracker true-up application.	Exhibit 23623-X0005, Attachment 4 to Appendix III, 2016 CCA Reconciliation to CRA Filing.