Decision **23789-D01-2019**

Alberta Utilities Commission

ATCO Gas and Pipelines Ltd.

2017 Performance-Based Regulation Capital Tracker True-Up

January 22, 2019

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1 Decision

1. This decision provides the Alberta Utilities Commission's determinations with respect to ATCO Gas and Pipelines Ltd.'s 2017 capital tracker true-up application. For the reasons set out in this decision, the Commission has determined that:

- ATCO Gas's proposed grouping of capital projects or programs is reasonable.
- The need for the capital tracker projects or programs included in the 2017 true-up is confirmed.
- The actual scope, level, timing and costs of each of the projects or programs included in the 2017 true-up were prudent, with the exception of the New Regulating Meter Stations Program and the Urban Pipelines Replacement (UPR) portion of the Transmission Driven Capital Program. The Commission issued directions to ATCO Gas to provide more information for these programs in the compliance filing to this decision. The capital tracker projects or programs included in the 2017 true-up satisfy the accounting test requirement of Criterion 1. Therefore, all of ATCO Gas's programs or projects included in the 2017 true-up satisfy the project assessment requirement of Criterion 1, subject to any adjustments arising from ATCO Gas's compliance filing in order to account for the Commission's findings and directions in this decision.
- The capital tracker projects or programs included in the 2017 true-up meet the requirements of Criterion 2.
- All of ATCO Gas's capital tracker projects or programs included in the 2017 true-up satisfy the two-tiered materiality test requirement of Criterion 3, subject to any information required in ATCO Gas's compliance filing in order to account for the Commission's findings and directions in this decision.

2. Based on the above determinations, the Commission finds that all of the projects or programs included in the 2017 capital tracker true-up satisfy all three capital tracker criteria, subject to any adjustments arising from ATCO Gas's compliance filing in order to account for the Commission's findings and directions in this decision. Relying on this finding, the Commission in turn approves, on an interim basis, the 2017 actual K factors of $34.6 million in the ATCO Gas north service territory and $28.6 million in the ATCO Gas south service territory and the associated K factor true-up refund of $2.08 million for the north service territory and a collection of $2.89 million for the south service territory.

2 Introduction and procedural background

3. On July 27, 2018, ATCO Gas filed an application with the Commission requesting approval of its 2017 capital tracker true-up application and associated K factor adjustments to be reflected in its rates under performance-based regulation (PBR).

4. On July 31, 2018, the Commission issued a notice of application inviting interested parties to submit a statement of intent to participate (SIP) by August 7, 2018. The Commission received SIPs from the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA).

5. The proceeding included the following major process steps:

Process step	Due date
Information requests (IRs) to ATCO Gas	August 28, 2018
IR responses from ATCO Gas	September 11, 2018
Submissions on need for additional process steps	September 18, 2018
Argument	October 10, 2018
Reply argument	October 24, 2018

6. The Commission considers the record for this proceeding to have closed on October 24, 2018, when ATCO Gas and the CCA filed their reply argument.

7. 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 findings in decisions 2012-237,[1] 2013-435,[2] 3267-D01-2015,[3] 3558-D01-2015,[4] 20604-D01-2016,[5] 21608-D01-2018,[6] 21843-D01-2017,[7] 22819-D01-2018[8] and related compliance decisions. Accordingly, references in this decision to specific parts of the record of this proceeding and the findings of the Commission in these previous decisions are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record of this proceeding with respect to a particular matter.

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

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

3 Decision 3267-D01-2015: ATCO Gas and Pipelines Ltd., 2013 PBR Capital Tracker Refiling and True-up and 2014-2015 PBR Capital Tracker Forecast, Proceeding 3267, Application 1610634-1, March 19, 2015.

4 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.

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

6 Decision 21608-D01-2018: ATCO Gas, a division of ATCO Gas and Pipelines Ltd., Z Factor Application for Recovery of 2016 Regional Municipality of Wood Buffalo Wildfire Costs, Proceeding 21608, June 5, 2018.

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

8 Decision 22819-D01-2018: ATCO Gas and Pipelines Ltd., 2016 Performance-Based Regulation Capital Tracker True-Up, Proceeding 22819, February 13, 2018.

3 Background

8. On September 12, 2012, the Commission issued Decision 2012-237, which set out the PBR framework and approved PBR plans for the distribution utility services of certain Alberta electric and gas companies (collectively, the distribution utilities), including ATCO Gas, for the 2013 to 2017 time period. 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.

9. 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. The implementation methodology established in Decision 2013-435 is, and has been, used to evaluate the capital tracker projects or programs proposed by the distribution utilities throughout the five-year PBR term, from 2013 to 2017.

10. 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 tracker-eligible capital-related costs. The last ATCO Gas application was its 2016 capital tracker true-up application, which was approved in Decision 22819-D01-2018. A summary of ATCO Gas's prior capital tracker-related decisions and resulting approved K factor amounts is attached as Appendix 3 to this decision.

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

11. The Commission's process for reviewing the 2017 capital tracker true-up application followed the steps set out in Section 4 of Decision 22819-D01-2018, where the Commission indicated that it would generally undertake assessments with respect to all three criteria for capital tracker treatment, for all capital projects or programs that the Commission has not considered in prior capital tracker decisions. The three criteria that each project or program must satisfy to receive capital tracker treatment are:

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

12. Where the Commission has previously confirmed the need for projects or programs 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, absent 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.

13. For purposes of the true-up of the 2017 capital tracker programs or projects for which the Commission determined in prior capital tracker decisions that the Criterion 2 requirements had been satisfied, the Commission did not undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program had changed. In all cases, however, the Commission did conduct an assessment of the 2017 capital tracker projects and programs based on the accounting test under Criterion 1 and the materiality test under Criterion 3.

14. The Commission generally undertakes an assessment with respect to all three criteria for capital tracker treatment for all capital projects or programs that the Commission has not considered in prior capital tracker decisions. In this decision, the Commission performed such an assessment for the new Wood Buffalo Wildfire Program.

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

- Section 5 of this decision provides a summary of the programs or projects for which ATCO Gas has sought capital tracker true-up for 2017 on an actual basis.
- Section 6 addresses the evaluation of ATCO Gas's proposed capital project groupings.
- The Commission's assessment of ATCO Gas's programs or projects proposed for capital tracker treatment under Criterion 1 is set out in Section 7 (project assessment) and Section 8 (accounting test).
- The Commission's assessment under Criterion 2 is dealt with in Section 9 while the assessment under Criterion 3 is considered in Section 10.
- Section 11 addresses ATCO Gas's compliance with Commission directions.
- Section 12 deals with the K factor calculation methodology and the K factor true-up for 2017.
- Section 13 discusses service quality and asset monitoring.

5 Summary of projects included in the application

16. The projects or programs included in the 2017 capital tracker true-up and associated variance between the approved forecast and actual capital expenditures, resulted in a proposed K factor true-up for 2017 of negative $2.08 million in the north service territory and positive $2.89 million in the south service territory. The K factor amounts and the individual project or program variances are set out in Table 1 below:

Table 1. K factor associated with programs and projects included in the 2017 capital tracker true-up

	Program/project name	2017 approved forecast*		2017 actual		Variance	
		North	South	North	South	North	South
		($000)					
1	Steel Mains Replacement	11,659	3,161	12,095	3,621	436	460
2	Plastic Mains Replacement	8,342	10,544	8,120	9,919	(222)	(625)
3	Meter Relocation and Replacement	976		1,970	1,042	994	1,042
4	Line Heater Reliability	1,298	692	998	472	(300)	(221)
5	Transmission Driven Capital	7,528	6,831	6,229	8,906	(1,299)	2,075
6	Urban Main Extensions	625				(625)	-
7	New Regulating Meter Stations	788	294	521	366	(267)	71
8	Urban Main Improvements	576	289	515	334	(61)	45
9	Rural Main Extensions and Service Lines	435				(435)	-
10	Urban Main Relocations	2,146	200	1,728	398	(418)	198
11	Rural Main Replacements and Relocations				259	-	259
12	Regulating Metering Station Improvements	347		320		(28)	-
13	Cathodic Protection	392	305	267	246	(125)	(59)
14	New Urban Service Lines		703		250	-	(453)
15	Service Line Replacements and Improvements	1,608	2,645	1,643	2,126	35	(519)
16	Alberta Floods		-		620	-	620
17	Wood Buffalo Wildfire			235		235	
	Total K factors	**36,721**	**25,665**	**34,641**	**28,558**	**(2,080)**	**2,893**

Source: Exhibit 23789-X0001, application, paragraph 11, Table 2.
*Decision 21606-D01-2016[9] and Decision 21843-D01-2017.

17. In the application, ATCO Gas requested the true-up of 12 north service territory programs or projects and 13 south service territory projects or programs.

18. In Decision 20604-D01-2016,[10] the Commission approved 13 projects or programs included in the above table for capital tracker treatment. The Commission approved the 13 capital trackers on a forecast basis for 2017, with subsequent updated forecasts in the compliance filing resulting in Decision 21606-D01-2016.[11] One additional program that was not included in the 13 projects or programs in Table 1 above, Steel Mains Replacements, was approved on a forecast basis for 2017 in Decision 21843-D01-2017.[12]

19. Two programs that were approved on a forecast basis in Decision 21606-D01-2016, namely, Urban Main Extensions - North and Rural Main Extensions and Service Lines - North, did not satisfy the materiality test under Criterion 3 on an actual expenditure basis in 2017 and, as such, were not included in the 2017 capital tracker true-up application. ATCO Gas confirmed that these programs no longer satisfied the materiality threshold in 2017 on an actual basis.[13]

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9 Decision 21606-D01-2016: ATCO Gas and Pipelines Ltd. 2014 True-Up and 2016-2017 Forecast PBR Capital Trackers Compliance Filing, Proceeding 21606, August 25, 2016, paragraph 86.
10 Decision 20604-D01-2016, paragraph 457.
11 Decision 21606-D01-2016, paragraph 86.
12 Decision 21843-D01-2017, paragraph 200.
13 Exhibit 23789-X0001, application, paragraph 113.

Therefore, the forecast K factor revenue of approximately $1.06 million collected for these programs in 2017 will be refunded to customers.[14]

20. ATCO Gas requested capital tracker treatment for the Wood Buffalo Wildfire Program as a new capital tracker program in the north service territory, as well as for each of the Rural Main Replacements and Relocations, Meter Relocation and Replacement and Alberta Floods programs in the south service territory on an actual basis for 2017. These four programs were not approved for capital tracker treatment on a forecast basis for 2017. However, the Alberta Floods Program was previously approved for 2016 on an actual basis in Decision 22819-D01-2017,[15] the Rural Main Replacements and Relocations Program was previously approved for the south in 2015 on a forecast basis in Decision 3267-D01-2015, and the Meter Relocation Replacement Program was approved for the north for 2017 on a forecast basis in Decision 21606-D01-2016.

21. Table 2 below shows all of the individual projects or programs included in the 2017 K factor true-up and the associated 2017 actual capital expenditures for ATCO Gas's north service territory. As further discussed in Section 7, the projects or programs in the table are divided into two categories: projects or programs for which no objections were raised and those requiring further comment. The actual expenditures are compared to the 2017 forecast capital expenditures approved in Decision 21843-D01-2017 and Decision 20604-D01-2016 or, where applicable, the updated forecast amounts approved in the related compliance filing Decision 21606-D01-2016. The variances between the 2017 approved forecast and 2017 actual amounts are also reflected in the table below:

Table 2. ATCO Gas north capital tracker capital expenditures

North	Capital expenditures		
Program or project name	**2017 approved forecast**	**2017 actual**	**Variance**
	($ million)		
Projects or programs for which no objections were raised			
Plastic Mains Replacement	25.4	27.5	2.1
Meter Relocation and Replacement	1.0	13.8	12.8
Line Heater Reliability	3.5	2.8	(0.8)
Urban Main Improvements	4.1	3.9	(0.2)
Urban Main Relocations	8.3	9.4	1.0
Regulating Metering Station Improvements	1.4	3.5	2.1
Cathodic Protection	1.9	1.2	(0.7)
Service Line Replacements and Improvements	2.8	3.9	1.1
Wood Buffalo Wildfire	-	0.004	0.004
Projects or programs requiring further comment			
Steel Mains Replacement	16.9	27.9	11.0
Transmission Driven Capital	17.0	17.8	0.8
New Regulating Meter Stations	3.0	3.6	0.7
Total	**85.3**	**115.3**	**29.9**

Note: Individual project or program capital addition values may not match values in the text below due to rounding.
Source: Exhibit 23789-X0001, application, paragraph 13, Table 3.

22. Table 3 below shows all of the individual projects or programs included in the 2017 K factor true-up and the associated 2017 approved forecast and actual capital expenditures for ATCO Gas's south service territory. As further discussed in Section 7, the projects or programs

14 Exhibit 23789-X0001, application, paragraph 11, Table 2.
15 Decision 22819-D01-2018, paragraphs 76-78.

in the table are divided into two categories: projects or programs for which no objections were raised and those requiring further comment. The actual expenditures are compared to the 2017 forecast capital expenditures approved in Decision 21843-D01-2017 and Decision 20604-D01-2016 or, where applicable, the updated forecast amounts approved in the related compliance filing Decision 21606-D01-2016. The variances between the 2017 approved forecast and 2017 actual amounts are also reflected in the table below:

Table 3. ATCO Gas south capital tracker capital expenditures

South	Capital expenditures		
Program or project name	2017 approved forecast	2017 actual	Variance
	($ million)		
Projects or programs for which no objections were raised			
Plastic Mains Replacement	22.1	26.1	4.0
Meter Relocation and Replacement	-	12.9	12.9
Line Heater Reliability	5.1	3.0	(2.1)
Urban Main Improvements	3.8	3.9	0.2
Urban Main Relocations	2.4	4.9	2.6
Rural Main Replacements and Relocations	-	5.0	5.0
Cathodic Protection	2.1	1.6	(0.5)
New Urban Service Lines	13.0	12.4	(0.5)
Service Line Replacements and Improvements	4.2	3.5	(0.7)
Alberta Floods	-	(0.2)	(0.2)
Projects or programs requiring further comment			
Steel Mains Replacement	10.9	16.1	5.2
Transmission Driven Capital	27.4	43.8	16.4
New Regulating Meter Stations	1.7	2.9	1.2
Total	**92.5**	**135.9**	**43.5**

Note: Individual project or program capital addition values may not match values in the text below due to rounding.
Source: Exhibit 23789-X0001, application, paragraph 13, Table 3.

23. In the remainder of this decision, the Commission considers reasonableness of the actual expenditures for the north and south projects or programs, and their inclusion in the 2017 capital tracker true-up.

6 Grouping of projects for capital tracker purposes

24. 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 aggregate.[16] The Commission also

[16] Decision 2013-435, paragraph 407.

determined that the reasonableness of the grouping of capital projects would be assessed on a case-by-case basis for each individual company.[17]

25. In the application, ATCO Gas used the same approach to grouping that it had used in its prior capital tracker applications for all previously approved capital tracker projects or programs. This grouping of capital tracker projects was approved in Decision 3267-D01-2015.[18] ATCO Gas also included, as directed at paragraph 50 and Appendix 3 of Decision 3558-D01-2015, a description of its 2017 non-capital tracker projects and programs,[19] and the actual capital additions for all projects and programs. The application included supporting calculations and a breakdown of the amount of depreciation, overhead and income tax allocated to each capital tracker project or program and non-capital tracker project or program reconciled to the total amount of depreciation, overhead and income tax for all projects and programs,[20] to allow for a better understanding of the proposed groupings of capital projects and programs for which ATCO Gas was seeking capital tracker treatment.

26. As stated above, ATCO Gas applied for a new capital tracker program for the Wood Buffalo Wildfire. This program relates to the 2016 Regional Municipality of Wood Buffalo wildfire costs. In Decision 21608-D01-2018, which approved the Z factor application for the 2016 Wood Buffalo Wildfire costs, the Commission was satisfied that, for 2016, all five of the criteria to qualify for a Z factor rate adjustment had been met and the 2016 costs for this program could be recovered by way of a Z factor, subject to certain adjustments.

27. There is an ongoing revenue requirement associated with the prior capital expenditures for this program that includes depreciation, return, and taxes. There continues to be a 2017 funding shortfall above the K factor materiality threshold that is related to 2016 capital additions. Accordingly, ATCO Gas applied for a capital tracker for the 2017 costs of this program.

28. ATCO Gas confirmed in its reply argument that it isolates programs like the wildfire in both the capital tracker accounting test, as well as the Z factor application revenue requirement, to ensure double counting does not occur. It also confirmed that its approach is consistent with the Commission's findings in the 2013 Southern Alberta floods decision.[21] ATCO Gas referred to the Commission's findings in Decision 2013-417[22] and the *Public Utility Depreciation Practices* published by the Federal Energy Regulatory Commission,[23] as support for the finding that depreciation expense provides for the recovery of the investment in current assets, and that depreciation studies do not take into consideration the cost of asset replacement.[24]

Commission findings

29. Consistent with the approach set out in previous capital tracker decisions,[25] and with the exception of the capital tracker for the Wood Buffalo Wildfire Program, the groupings included

17 Decision 2013-435, paragraph 406.
18 Decision 3267-D01-2015, paragraphs 107-108.
19 Exhibit 23789-X0009, application, Appendix C.
20 Exhibit 23789-X0002, application, Appendix A.
21 Decision 2738-D01-2016: ATCO Gas and Pipelines Ltd., Z Factor Application for Recovery of 2013 Southern Alberta Flood Costs, Proceeding 2738, March 16, 2016.
22 Decision 2013-417: Utility Asset Disposition, Proceeding 20, Application 1566373, November 26, 2013.
23 Proceeding 21608, Exhibit 21608-X0064, ATCO Gas reply argument, paragraphs 35-36.
24 Decision 21608-D01-2018, paragraph 39.
25 See for example, Decision 3558-D01-2015, paragraph 51.

in the application for capital tracker projects and programs are the same as those approved in Decision 3267-D01-2015 and most recently in Decision 20604-D01-2017 and Decision 21843-D01-2017. The Commission, therefore, did not re-evaluate the groupings of the previously approved projects or programs included in the 2017 true-up application.

30. In Decision 2013-435, the Commission indicated that the reasonableness of the grouping of capital projects is best assessed on a case-by-case basis.[26] Regarding the grouping of the new Wood Buffalo Wildfire Program, the Commission agrees with ATCO Gas's view that the common driver for the costs related to this program relates to the 2017 replacement of assets due to the unique circumstances arising from the 2016 Regional Municipality of Wood Buffalo wildfire, and is consistent with the approval of capital expenditures associated with the wildfire approved in Decision 21608-D01-2018.

31. The Commission observes that ATCO Gas grouped the Wood Buffalo Wildfire Program as a separate program, similar to how it treated the Alberta Floods Program, the grouping of which was approved in Decision 21843-D01-2017. In that decision, the Commission approved the Alberta Floods Program as a separate program and found:

> 36. While the Commission considers that from a principled perspective, regrouping should occur for capital tracker programs that relate to the same or similar asset type, the Commission also recognizes that the impact is unlikely to be material to the current application and there would be additional regulatory burden associated with regrouping the Alberta Flood costs by asset type. …
>
> 37. The Commission accepts ATCO Gas's explanation of why separating its assets included in the Alberta Floods program into a number of different asset types, each to be grouped with a different existing capital tracker project or program, is not practical for the purposes of the current application.
>
> 38. In light of the above considerations, for the purposes of this decision, the Commission accepts ATCO Gas's grouping of projects, as filed. Given the unique circumstances arising from the 2013 southern Alberta floods, the Commission approves the Alberta Floods program grouping.

32. The Commission accepts ATCO Gas's explanation that it isolated the Wood Buffalo Wildfire Program in both the capital tracker accounting test, and the 2016 Z factor application revenue requirement. Upon review of the application and further submissions provided by ATCO Gas, the Commission is satisfied that the information provided supports that double counting did not occur. The Commission also finds it reasonable to group under a single program the costs of assets replaced as a result of the 2016 Regional Municipality of Wood Buffalo wildfire. The Commission finds that the grouping of these costs under a single program is also consistent with the grouping of costs associated with the 2013 Southern Alberta floods.

33. In light of the above considerations, the Commission accepts ATCO Gas's grouping of projects included in the 2017 capital tracker true-up, as filed.

34. For all of the 2017 capital tracker projects and programs, the Commission finds that ATCO Gas complied with the directions at paragraph 50 and Appendix 3 of Decision 3558-D01-

[26] Decision 2013-435, paragraph 406.

2015 and it provided descriptions of the nature, scope and timing of its non-capital tracker projects or programs.

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

35. As discussed in Section 4 of this decision, each of ATCO Gas's programs or projects included in the 2017 true-up was evaluated against the second part of the project assessment requirements of Criterion 1. This component of Criterion 1 considers whether the actual scope, level, timing and costs of the project are prudent. For the new Wood Buffalo Wildfire Program, the Commission assessed the need for the program as well as the actual scope, level, timing and costs of the program.

36. In determining prudence, the Commission evaluated the ATCO Gas business cases, engineering studies, cost-related information, related evidence and argument against each of the project assessment minimum filing requirements. In this decision, the Commission comments only on those aspects of the minimum filing requirements that it considers were not sufficiently addressed by ATCO Gas or where issues were raised with the project or program.

37. The project assessments in this decision correspond to individual capital tracker projects or programs. Section 7.1 addresses common issues related to the project assessment of ATCO Gas's capital projects or programs, such as overhead allocations and the company's internal cost controls and accountability mechanisms with respect to quality, safety and cost. Sections 7.2 (except Section 7.2.2) and 7.3 set out the Commission's project assessment under Criterion 1 of ATCO Gas's projects or programs previously approved for capital tracker treatment in Decision 22819-D01-2017, Decision 3267-D01-2015, Decision 21843-D01-2017 and Decision 20604-D01-2016 or, where applicable, the updated forecast amounts approved in the compliance filing decision, Decision 21606-D01-2016. Section 7.2.2 sets out the Commission's project assessment under Criterion 1 for the new Wood Buffalo Wildfire Program.

7.1 Common issues by project or program

7.1.1 Allocated indirect costs (overhead)

38. Allocated indirect costs include overhead costs related to contractor charges, information technology support, staff expenses, material, and equipment. ATCO Gas provided the following table, setting out its indirect costs for 2017 actual expenditures and 2017 forecast costs allocated to capital program expenditures:

Table 4. Allocated indirect costs (overhead) for 2017

	2017 approved forecast Proceeding 20604	2017 actual	Approved vs. actual variance	Approved vs. actual variance
	($000)			%
Contractor charges	2,745	3,766	1,021	37
IT support	3,856	3,316	(540)	(14.0)
Staff expenses	1,692	1,503	(189)	(11.2)
Materials	1,403	1,356	(47)	(3.3)
Equipment	1,024	1,024	-	0.0
TOTAL	**10,720**	**10,965**	**245**	**2.29**
2012 approved (indexed by I-X)	(11,070)	(11,070)		
Higher/lower than I-X	**(350)**	**(105)**		
Total capital expenditures	359,934	382,634		
Allocated indirect costs as a percentage of capital expenditures	3.0%	2.9%		

Source: Exhibit 23789-X0001, application, paragraph 127, Table 7.

39. ATCO Gas stated that it has followed the methodology previously approved in Decision 2011-450[27] in calculating its allocated indirect costs. It recorded costs within its capital cost pools incurred for purposes common to a number of programs and the costs cannot be identified and charged directly to programs and projects without a considerable amount of administrative effort. To demonstrate the prudence of its actual allocated indirect costs for 2017, ATCO Gas noted that these costs are lower than 2012 approved amounts indexed by the applicable number of annual I-X adjustments.[28]

40. In addition, ATCO Gas provided its 2017 allocated indirect costs by program, for each of the north and south service territories. Table 5 shows the 2017 approved forecast and actual amounts for the allocated indirect costs for the north:

Table 5. 2017 ATCO Gas North allocated indirect costs (overhead) by program

North	2017 approved	2017 actual
Program or project name	($000)	
Urban Mains Extensions	484	212
Rural Mains Extensions & Services	413	215
Urban Feeder Mains	162	84
New Regulating Meter Stations	39	102
Urban Main Improvements	128	118
Urban Main Relocations	258	272
Rural Main Replacements and Relocations	85	92
Regulating Metering Station Improvements	18	88
Cathodic Protection	60	40
New Urban Service Lines	1,048	869
Service Line Replacements and Improvements	120	179

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

28 Exhibit 23789-X0001, application, paragraphs 124 and 128.

North	2017 approved	2017 actual
Program or project name	**($000)**	
Meters and Instruments	166	190
Supervisory control and data acquisition (SCADA)	6	3
Regulators and Meter Installations	224	233
Meter Set Improvements	42	43
General Land and Structures	71	8
Transportation Equipment	35	31
Tools and Work Equipment	13	9
Heavy Work Equipment	6	13
Garage, Stores and Shop Equipment	2	-
Office Furniture and Equipment	-	-
Technical Support Equipment	5	-
Emergency Supply	-	-
Communication Equipment	70	34
Information Technology	66	92
Steel Mains Replacement	924	866
Plastic Mains Replacement	826	879
Meter Relocation Replacement Program	-	203
Line Heater Reliability Program	46	67
Transmission Driven	447	466
Commercial Below Ground Entry Project	-	-
Automated meter reading (AMR)	86	58
Wood Buffalo Wildfire	-	-
Total	**5,850**	**5,466**

Source: Exhibit 23789-X0001, application, paragraph 134, Table 8.

41. Table 6 shows the 2017 approved and actual amounts for the allocated indirect costs for the south:

Table 6. 2017 ATCO Gas South allocated indirect costs (overhead) by program

South	2017 approved	2017 actual
Program or project name	**($000)**	
Urban Mains Extensions	326	200
Rural Mains Extensions & Services	288	162
Urban Feeder Mains	77	85
New Regulating Meter Stations	21	74
Urban Main Improvements	118	122
Urban Main Relocations	75	160
Rural Main Replacements and Relocations	71	162
Regulating Metering Station Improvements	14	149
Cathodic Protection	64	50
New Urban Service Lines	743	620
Service Line Replacements and Improvements	179	171
Meters and Instruments	165	153
SCADA	4	1

South	2017 approved	2017 actual
Program or project name	**($000)**	
Regulators and Meter Installations	195	195
Meter Set Improvements	12	18
General Land and Structures	82	44
Transportation Equipment	40	32
Tools and Work Equipment	11	7
Heavy Work Equipment	7	6
Garage, Stores and Shop Equipment	1	-
Office Furniture and Equipment	-	-
Technical Support Equipment	1	-
Emergency Supply	1	-
Communication Equipment	65	36
Information Technology	66	93
Steel Mains Replacement	374	540
Plastic Mains Replacement	853	828
Meter Relocation Replacement Program	-	137
Line Heater Reliability Program	67	73
Transmission Driven	864	1,328
Commercial Below Ground Entry Project	-	-
AMR	86	58
2013 Southern Alberta Floods	-	(5)
Total	**4,870**	**5,499**
Grand Total	**10,720**	**10,965**

Source: Exhibit 23789-X0001, application, Table 8.

Commission findings

42. The information in ATCO Gas's application is similar to the allocated overhead costs information filed in previous capital tracker proceedings[29] and, most recently, in Proceeding 22819. The level of information provided a useful basis for assessing the allocation of indirect costs by program. The 2017 actual overhead costs reflect the previously approved methodology for allocating overhead costs to capital program expenditures.

43. ATCO Gas pointed out that the 2017 actual allocated indirect costs are lower than the 2012 approved allocated indirect costs indexed by the applicable number of annual I-X adjustments. However, the difference between the 2017 approved forecast and actual costs is $245,000, or approximately two per cent above forecast.[30] The Commission has reviewed the information in support of ATCO Gas's 2017 actual overhead costs, including explanations for the variance between the 2017 actual costs and 2017 approved forecast, and finds that the actual overhead costs have been adequately accounted for in 2017. For these reasons, the Commission approves the 2017 actual overhead costs as prudently incurred.

29 The Commission previously approved ATCO Gas's methodology for allocating overhead costs to capital program expenditures in Decision 2011-450 and in Decision 20604-D01-2016. In Decision 20604-D01-2016, the Commission found forecast indirect costs for 2015-2017 to be reasonable.

30 (245/10,965)*100.

7.1.2 Project management policies and procedures

44. At paragraph 75 of Decision 20604-D01-2016, the Commission directed ATCO Gas "to continue providing its formal management policies and procedures and identify any changes from the previous year."

45. To demonstrate compliance with this direction, ATCO Gas confirmed that there were no material changes to its management policies and procedures in 2017.[31] ATCO Gas filed its project delivery process in Appendix E of the application, which was also filed in prior capital tracker applications.[32]

Commission findings

46. The Commission has reviewed ATCO Gas's project management policies and procedures and finds that ATCO Gas has complied with the direction set out at paragraph 75 of Decision 20604-D01-2016.

7.2 Programs or projects for which no objections were raised

47. There were a number of previously approved capital tracker projects or programs and one new capital tracker program, the Wood Buffalo Wildfire Program, for which no objections as to need, scope, level, timing or costs were raised by the parties in this proceeding. Tables 2 and 3 in Section 5 above summarize these projects and show the 2017 forecast capital expenditures approved in prior capital tracker decisions. The tables show the actual capital expenditures on which the 2017 capital tracker true-up is based and the resulting variances from forecast to actual amounts.

48. These programs or projects are discussed in sections 7.2.1.1 to 7.2.1.11, followed by the Commission's findings for each of these programs or projects. The Wood Buffalo Wildfire Program is addressed in Section 7.2.2.

7.2.1 Previously approved capital tracker projects or programs

7.2.1.1 Plastic Mains Replacement

49. The Plastic Mains Replacement (PMR) Program consists of the replacement of polyvinyl chloride (PVC) and early generation pre-1978 polyethylene (PE) pipe. The PMR Program includes planned replacement projects and emergency replacement projects required throughout the year. This is a 20-year program that commenced in 2011 and is expected to be completed by 2030. The need for this program was previously approved in Decision 2013-435,[33] Decision 3267-D01-2015[34] and Decision 20604-D01-2016.[35]

50. For 2017, ATCO Gas forecast that it would replace 122 kilometres (km) of plastic pipe in the north and 175 km in the south. The actual number of kilometres of plastic mains replaced was 151 km in the north and 153 km in the south. The 2017 approved forecast capital expenditures for this program were $25.4 million in the north, while the actual 2017 capital expenditures were $27.5 million, resulting in a variance of $2.07 million above forecast. The

31 Exhibit 23789-X0001, application, paragraph 21.
32 Exhibit 23789-X0011, application, Appendix E.
33 Decision 2013-435, paragraph 647.
34 Decision 3267-D01-2015, paragraph 264.
35 Decision 20604-D01-2016, paragraph 222.

2017 approved forecast capital expenditures for this program were $22.1 million in the south, while the actual 2017 capital expenditures were $26.1 million, resulting in a variance of $4.00 million above forecast.[36]

51. Consistent with past applications, ATCO Gas used a regression analysis approach to explain the deviation in the 2017 unit costs. Specifically, ATCO Gas input the actual service densities for the north and south into the regression formulas, previously accepted by the Commission, to yield the expected unit costs. For the north, ATCO Gas input its actual service density of 12.5 into the regression equation, yielding a unit cost per km of $245,200. The actual unit cost per km for the north was $179,700. For the south, ATCO Gas input its actual service density of 5.8 into the regression equation yielding a unit cost per km of $142,900. The actual unit cost per km for the south was $168,300. ATCO Gas reported that the unit costs were 26.7 per cent lower than forecast in the north and 17.8 per cent higher than forecast in the south.[37]

52. For the north, ATCO Gas explained that it allocated resources and scheduled construction to maximize cost efficiencies. More work was also performed during frost-free conditions leading into the construction season in 2017.[38] For the south, ATCO Gas explained that resource constraints and scheduling limitations, such as restricted access to agricultural land, affected productivity. This resulted in more work being performed under frost conditions.[39] For emergency replacements within the PMR Program in 2017, ATCO Gas identified a variance of nine per cent above forecast for the north and 115 per cent above forecast for the south.[40]

7.2.1.2 Meter Relocation and Replacement Program

53. The Meter Relocation and Replacement Program (MRRP) is required to address safety concerns associated with pressurized gas lines and meters inside buildings. The program includes the removal and replacement of the meter, regulator and associated piping to building exteriors. The need for this program was approved in Decision 2013-435,[41] Decision 3267-D01-2015[42] and Decision 20604-D01-2016.[43]

54. The MRRP began in 2003. This capital tracker program consists of relocating and replacing Tier 2 (T2) and Tier 3 medium risk (T3M) meter sets in 2017. In addition, some low risk meter sets, Tier 3 low risk (T3L) and Tier 4 (T4), would be moved in conjunction with an annual meter recall program at sites that present safety issues for customers or ATCO Gas employees, where meter access problems exist, or at the time ATCO Gas remedies operational issues, e.g., leaks. In 2017, ATCO Gas completed Tier 1, Tier 2, T3M, T3L and T4 moves[44] in a manner consistent with Decision 2011-450 and subsequent decisions, wherein the timing of certain replacements was subject to specific Commission directions.[45]

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36 Exhibit 23789-X0001, application, Table 39, paragraph 199.
37 Exhibit 23789-X0001, application, Table 40, paragraph 201.
38 Exhibit 23789-X0001, application, paragraph 202.
39 Exhibit 23789-X0001, application, paragraph 203.
40 Exhibit 23789-X0001, application, Table 39, paragraph 199.
41 Decision 2013-435, paragraph 659.
42 Decision 3267-D01-2015, paragraphs 630 and 638.
43 Decision 20604-D01-2016, paragraph 300.
44 Exhibit 23789-X0001, application, paragraph 272.
45 Decision 2011-450, paragraphs 157-164.

55. The forecast to actual variance for the MRRP in 2017 for the north was $12.8 million above forecast, which is the difference between the forecast capital expenditures of $0.96 million and the actual capital expenditures of $13.8 million. The forecast to actual variance for the MRRP in 2017 for the south was $12.9 million above forecast.[46] As set out in Decision 20604-D01-2016, the MRRP in the south did not meet Criterion 3 for 2017 on a forecast basis and therefore had no approved forecast.[47]

56. In 2017, ATCO Gas completed 11,258-meter moves compared to the forecast of 1,223. ATCO Gas explained the large variance was in response to the increased number of meter sites identified as belonging to a higher risk tier classification due to changes in conditions at sites over time. ATCO Gas stated that in order to ensure that the highest risk meter-set sites are properly prioritized for replacement, it visited sites in 2016 to obtain an updated assessment of the risk level at each site.[48]

57. In response to a Commission IR, ATCO Gas stated that since 2011, the risk factors at some MRRP sites have increased, resulting in reclassification to Tier 1.[49] ATCO Gas further explained that the types of risk factors and definition of low, medium and high risk remained consistent.[50] The 2016 risk assessment revised the classification of meter sites as shown in Table 7 below:

Table 7. 2016 revised classification of meter sites

	Classification				
	Tier 1	Tier 2	Tier 3	Tier 3A/4	Total
Inside meter sites prior to 2016 risk assessment	261	510	1,778	35,845	38,394
Inside meter sites following 2016 risk assessment	981	15,758	10,622	11,033	38,394

Source: Exhibit 23789-X0001, application, paragraph 271.

58. ATCO Gas submitted that all of the work undertaken as part of this program was consistent with the scope and prioritization accepted by the Commission in its last general rates decision, Decision 2011-450.[51]

7.2.1.3 Line Heater Reliability

59. The Line Heater Reliability Program brings non-compliant ATCO Gas line heaters to an Occupational Health and Safety Code compliant level and includes related work at those non-compliant sites to ensure line heater reliability and safe operability. The need for this program was previously approved in Decision 2013-435,[52] Decision 3267-D01-2015[53] and Decision 20604-D01-2016.[54]

60. The 2017 approved forecast capital expenditures for this program were $3.5 million in the north, and the actual 2017 capital expenditures were $2.8 million in the north, resulting in a

46 Exhibit 23789-X0001, application, Table 102.
47 Decision 20604-D01-2016, Table 2.
48 Exhibit 23789-X0001, application, paragraphs 271-273.
49 Exhibit 23789-X0026, AG-AUC-2018AUG28-005(d).
50 Exhibit 23789-X0026, AG-AUC-2018AUG28-004(e).
51 Exhibit 23789-X0001, application, paragraph 274.
52 Decision 2013-435, paragraph 669.
53 Decision 3267-D01-2015, paragraph 630.
54 Decision 20604-D01-2016, paragraphs 132 and 134.

variance of $0.8 million below forecast. The 2017 approved forecast capital expenditures for this program were $5.1 million in the south, and the actual 2017 capital expenditures were $3.0 million in the south, resulting in a variance of $2.1 million below forecast.[55]

61. ATCO Gas indicated that it completed 13 of the approved 36 sites in the north and 15 of the approved 52 sites in the south.[56] ATCO Gas stated that these variances below forecast were primarily due to delays related to land acquisitions and to the complexity of the work to be undertaken.[57] In an IR response, ATCO Gas explained that if the line heater needs to be relocated or replaced, additional land is required to accommodate the increased footprint. If land cannot be acquired at an existing site, the station may need to be relocated to a new parcel of land at a different location. ATCO Gas confirmed that it is still planning to complete the program by the end of 2021. ATCO Gas further confirmed that completing fewer sites than forecast in 2017 did not affect service quality and reliability, as there were no incidents of loss of service associated with outstanding line heater sites.[58]

7.2.1.4 Cathodic Protection

62. The Cathodic Protection Program consists of maintaining and improving cathodic protection on ATCO Gas's existing steel mains. ATCO Gas maintains cathodic protection through improvement projects, such as the replacement and new installation of dresser bondings, isolation fittings, anodes, rectifiers and ground beds. The need for this program was approved in Decision 3267-D01-2015[59] and Decision 20604-D01-2016.[60]

63. The variance between forecast and actual results for the Cathodic Protection Program in 2017 for the north was $0.67 million below forecast, which is the difference between the forecast capital expenditures of $1.92 million and the actual capital expenditures of $1.25 million. The variance between forecast and actual results for the Cathodic Protection Program in 2017 for the south was $0.52 million below forecast, which is the difference between the forecast capital expenditures of $2.14 million and the actual capital expenditures of $1.62 million.[61]

64. ATCO Gas explained that the variances in the north and south were largely due to a reduced volume of anodes being replaced at a lower unit rate. In 2017, ATCO Gas replaced 717 anodes compared to the approved forecast of 1,185 anodes in the north and 701 anodes were replaced in the south compared to a forecast of 1,585. Further, the actual cost per anode installed was $525 rather than the forecast cost of $1,154 in the north and $750 compared to $959 in the south. The lower unit cost was a result of several factors, including fewer sites being installed under winter conditions, and fewer sites requiring hydrovac servicing, concrete cutting and concrete replacement. Also, sites in the north were closer in proximity than in the past, thereby reducing travel time and overall time per unit completion.[62]

55 Exhibit 23789-X0001, application, paragraph 282, Table 105.
56 Exhibit 23789-X0026, AG-AUC-2018AUG28-008.
57 Exhibit 23789-X0001, application, paragraphs 287-288.
58 Exhibit 23789-X0026, AG-AUC-2018AUG28-008(a) and AG-AUC-2018AUG28-009(c-d).
59 Decision 3267-D01-2015, paragraph 469, 471.
60 Decision 20604-D01-2016, paragraphs 320-324.
61 Exhibit 23789-X0001, application, paragraph 342, Table 114.
62 Exhibit 23789-X0001, application, paragraphs 351-352.

7.2.1.5 Regulating Metering Station Improvements

65. Regulating metering stations are the facilities required to receive gas on the distribution system from interconnections with the high-pressure transmission system. They also regulate pressure between different pressure distribution systems. Projects under this program are undertaken to address reliability and performance issues. Typical projects in this program include: installation of duplicate regulating "runs," major repairs to station buildings, and replacement of equipment due to deterioration or performance issues. The need for this program was approved in Decision 3267-D01-2015[63] and Decision 20604-D01-2016.[64] The Commission approved the 2017 capital tracker treatment on a forecast basis for this program in Decision 21606-D01-2016, but only for ATCO Gas's north service territory.[65]

66. The forecast to actual variance for the Regulating Metering Station Improvements Program in 2017 for the north was $2.1 million above forecast, which is the difference between the forecast capital expenditures of $1.4 million and the actual capital expenditures of $3.5 million.[66]

67. ATCO Gas explained that the variance between the actual and forecast costs was due to the reactive nature of the work in this program being higher than the three-year average on which the forecast was based. ATCO Gas noted that it encountered an increase in the number of required improvements identified under the Regulating Metering Station Improvements Program and attributed this to the aging nature of its assets. Some of the increased improvement work was identified during engineering assessments at sites with line heaters. As a result, ATCO Gas started conducting enhanced inspections and engineering assessments on aging station assets.[67]

7.2.1.6 New Urban Service Lines

68. In Decision 21606-D01-2016, the Commission approved capital tracker treatment for the New Urban Services Lines Program for ATCO Gas's south service territory for 2017.[68] ATCO Gas stated that it installs new urban service lines to residential and commercial customers for the portion of the distribution pipe from the urban main extension to the meter and regulator at the building. The work is driven by customer growth and new development. ATCO Gas stated that it prepared a forecast using a historical average approach because ATCO Gas does not have control over the number of new services installed within a given year.[69] The need for this program was approved in Decision 3267-D01-2015[70] and Decision 20604-D01-2016.[71]

69. The forecast to actual variance was $0.5 million below forecast, which is the difference between the forecast cost of $12.9 million and the actual cost of $12.4 million for the south. ATCO Gas explained this was the result of a decrease in new development activity that reduced the number of requests for new service installations.[72]

63 Decision 3267-D01-2015, paragraphs 407-408.
64 Decision 20604-D01-2016, paragraphs 130, 132 and 134.
65 Decision 21606-D01-2016, paragraph 86.
66 Exhibit 23789-X0001, application, paragraph 291, Table 106.
67 Exhibit 23789-X0001, application, paragraphs 298-299.
68 Decision 21606-D01-2016, paragraph 86.
69 Exhibit 23789-X0001, application, paragraphs 356-358.
70 Decision 3267-D01-2015, paragraphs 519, 521, 523.
71 Decision 20604-D01-2016, paragraphs 360, 362-363.
72 Exhibit 23789-X0001, application, paragraph 360.

7.2.1.7 Service Line Replacements and Improvements

70. The Service Line Replacements and Improvements Program consists of replacement or alteration of service lines due to safety, reliability or capacity issues, or as a result of a customer request. The replacement or alteration of service lines is typically identified through field observations, while completing inspections or other work at the same location. Customer-driven alterations are the result of customer requests for service line relocations, often as a result of home renovations, landscaping or the construction of additions, decks or garages. For customer-requested relocations, a direct customer contribution is required. The need for this program was approved in Decision 3267-D01-2015[73] and Decision 20604-D01-2016.[74]

71. The 2017 approved forecast capital expenditures for this program were $2.8 million, while the actual 2017 capital expenditures were $3.9 million, resulting in a $1.1 million variance above forecast for the north.[75] ATCO Gas submitted that this variance was due to higher redevelopment in established areas compared to the historical average.[76]

72. For the south, the 2017 approved forecast capital expenditures for this program were $4.2 million while the actual 2017 capital expenditures were $3.5 million, resulting in a $0.7 million variance below forecast.[77] ATCO Gas explained that the primary cause of the variance was less redevelopment activity, which reduced the number of requests for service alterations in established areas.[78]

7.2.1.8 Urban Main Improvements

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

74. The need for this program was approved in Decision 3267-D01-2015. The Commission approved 2017 capital tracker treatment on a forecast basis for this program in Decision 21606-D01-2016.[79]

75. The 2017 approved forecast capital expenditures for this program were $4.1 million in the north, while the actual 2017 capital expenditures were $3.9 million, resulting in a $0.2 million variance below forecast. In the south, the 2017 approved forecast capital expenditures for this program were $3.8 million, while the actual 2017 capital expenditures were $3.9 million, resulting in a $0.16 million variance above forecast.[80] ATCO Gas noted that both

73 Decision 3267-D01-2015, paragraphs 323 and 327.
74 Decision 20604-D01-2016, paragraphs 132 and 134.
75 Exhibit 23789-X0001, application, paragraph 301, Table 108.
76 Exhibit 23789-X0001, application, paragraph 307.
77 Exhibit 23789-X0001, application, paragraph 301, Table 108.
78 Exhibit 23789-X0001, application, paragraph 307.
79 Decision 21606-D01-2016, paragraph 86.
80 Exhibit 23789-X0001, application, Table 110, paragraph 320.

variances for the north and south are within the Rule 005: *Annual Reporting Requirements of Financial and Operational Results* variance reporting threshold.[81]

7.2.1.9 Urban Main Relocations

76. Urban main relocation work is necessary in order for ATCO Gas to provide safe and reliable gas distribution service. Municipally driven projects include road widening, road rehabilitation, neighborhood rehabilitation, back lane renewals, and deep utility improvements. On occasion, ATCO Gas is directed by Alberta Transportation to replace or relocate facilities that interfere with highway expansion projects. ATCO Gas also performs line alterations at the request of landowners. The need for this program was approved in Decision 3267-D01-2015[82] and Decision 20604-D01-2016.[83]

77. The forecast to actual variance for the Urban Main Relocations Program in 2017 for the north was $1.04 million above forecast, which is the difference between forecast capital expenditures of $8.32 million and actual capital expenditures of $9.36 million. The forecast to actual variance for the Urban Mains Relocations Program in 2017 for the south was $2.57 million above forecast, which is the difference between forecast capital expenditures of $2.37 million and actual capital expenditures of $4.94 million.[84]

78. ATCO Gas explained that expenditures were higher than forecast in the north due to more projects requiring relocation of ATCO Gas facilities than in previous years. These relocations were driven primarily by municipalities. Expenditures were higher in the south due to ATCO Gas undertaking a number of large complex projects requested by third parties.[85]

7.2.1.10 Alberta Floods

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

80. The Commission previously assessed the prudence of actual capital expenditures for this program in Decision 2738-D01-2016 for years 2013 and 2014, and in Decision 21843-D01-2017 for 2015, and in both decisions, the Commission found the actual costs to be prudent. In Decision 22819-D01-2018, the Commission granted capital tracker treatment for this program although there were no new capital expenditures in 2016. ATCO Gas explained that while there were no capital expenditures under this program in 2016, there was an ongoing revenue requirement associated with these capital expenditures, including depreciation, return on equity (ROE) and taxes. In the current proceeding, it was once again the case that no capital expenditure was incurred but, similar to 2016, ATCO Gas is seeking to recover the continued funding shortfall above the K factor materiality threshold, in the amount of $0.62 million.[86]

81 Exhibit 23789-X0001, application, paragraph 329.
82 Decision 3267-D01-2015, paragraph 364.
83 Decision 20604-D01-2016, paragraphs 130 and 132.
84 Exhibit 23789-X0001, application, Table 111, paragraph 331.
85 Exhibit 23789-X0001, application, paragraphs 339-340.
86 Exhibit 23789-X0001, application, paragraph 11, Table 2.

7.2.1.11 Rural Main Replacements and Relocations

81. The Rural Main Replacements and Relocations Program consists of rural main relocation projects completed at the request of third parties to accommodate infrastructure projects such as road widening, interchanges and bridges, as well as rural main replacements required to increase capacity or to address safety and reliability issues. The need for this program was approved in Decision 3267-D01-2015.[87]

82. This program did not meet the materiality requirements of Criterion 3 based on the 2017 forecast expenditures, and, therefore ATCO Gas did not request capital tracker treatment for this program in previous applications. However, in the present application ATCO Gas indicated the Rural Main Replacements and Relocations Program met Criterion 3 in 2017 on an actual expenditures basis and, as a result, ATCO Gas applied for capital tracker treatment for the program in its south service territory.

83. The 2017 actual costs of $5.03 million[88] were higher than the historical three-year average of $2.3 million for the program.[89] In response to a Commission IR, ATCO Gas explained that the increase in actual costs for the Rural Main Replacements and Relocations Program was due to an increase in the overall quantity of projects (118 compared to the average of 106 projects per year in the prior three-year period from 2012 to 2014), the presence of six large-scale projects exceeding $200,000 (compared to the average of approximately three projects in this range per year in the same period of 2012-2014), and an increase in the average cost per project ($42,653 compared to $21,930 average cost per project in the same period of 2012-2014). The six large-scale projects accounted for $2.7 million of the costs of this program, which on their own exceeded the forecast costs for the entire program.[90] ATCO Gas provided additional details surrounding this program and each project by submitting a breakdown of the incurred expenditures by cost type, identifying the third party requesting the project work and the reason for the third party request. It also provided the rationale for each project.

Commission findings

84. The Commission has previously approved the need for each of the 11 programs or projects considered in this section as part of the project assessment under capital tracker Criterion 1 in prior capital tracker decisions.[91] The Commission finds no evidence on the record of this proceeding to indicate that any of the programs or projects addressed in this section, for which no objections were raised, were not required in 2017. Therefore, the Commission did not re-evaluate the need for these projects or programs.

85. The Commission has reviewed ATCO Gas's 2017 actual capital expenditures associated with each of the programs or projects carried out in 2017 for which no objections were raised, and finds that the capital expenditures are generally consistent with the scope, level and timing of

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87 Decision 3267-D01-2015, paragraph 285.
88 Exhibit 23789-X0001, application, paragraph 363, Table 118.
89 Exhibit 23789-X0001, application, paragraph 91.
90 Exhibit 23789-X0026, AG-AUC-2018AUG28-024.
91 These projects were approved for capital tracker treatment on an actual or forecast basis in Decision 2013-435, Decision 3267-D01-2015, or Decision 20604-D01-2016 or, where applicable, the updated forecast amounts approved in the related compliance filings of Decision 21606-D01-2016, Decision 21843-D01-2017 and Decision 22819-D01-2017, respectively.

the work outlined in the business cases for these capital trackers and as approved in Decision 3267-D01-2015.

86. The Commission has also reviewed the 2017 actual capital additions for each of these programs or projects in light of the evidence supporting these costs, the associated procurement and construction practices, the magnitude of the variances, and the evidence explaining the variances between approved forecast and actual costs, and finds the actual costs to be prudent.

7.2.2 New capital tracker program – Wood Buffalo Wildfire

87. ATCO Gas applied for one new capital tracker program, not previously approved for capital tracker treatment on an actual or forecast basis, the Wood Buffalo Wildfire Program.

88. In Proceeding 21608, ATCO Gas sought to recover the 2016 costs for the Wood Buffalo Wildfire through a Z factor application. In Decision 21608-D01-2018, the Commission granted the Z factor request. The Commission also found the scope of the work performed, the timing of the repair and replacement activity and the quantum of the capital costs incurred in 2016 by ATCO Gas were prudent, subject to an insurance proceeds adjustment to be reflected in the compliance filing to Decision 21608-D01-2018.[92] The Commission also directed a compliance filing after 2016 to consider replacement mains and related assets.

89. In the current proceeding, ATCO Gas sought 2017 capital tracker treatment for the program, although there were no material expenditures incurred in 2017.[93] ATCO Gas pointed out that there is an ongoing revenue requirement associated with the prior capital expenditures, specifically, depreciation, ROE and taxes. ATCO Gas added that actual costs for the Wood Buffalo Wildfire Program were not fully recovered in the Z factor proceeding because capital costs are recovered over the life of the assets. As a result, there is a 2017 funding shortfall above the K factor materiality threshold.[94] According to ATCO Gas, the project has a capital funding shortfall of approximately $0.21 million for the north service area in 2017.[95]

90. ATCO Gas explained that the fire affected its facilities in numerous ways. Damage occurred at above-ground facilities such as pressure regulating stations and gas metering stations, as well as at certain below-ground facilities such as gas mains. Mains restoration work was required in all affected communities where the damage to the natural gas distribution system was extensive.[96]

Commission findings

91. As noted earlier in this section, in Decision 21608-D01-2018, the Commission granted Z factor treatment to ATCO Gas's 2016 costs related to the wildfire experienced in the Regional Municipality of Wood Buffalo. The Commission found the scope of the work performed, the timing of the repair and replacement activity and the quantum of the capital costs incurred in 2016 by ATCO Gas were prudent, subject to certain adjustments.[97]

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92 Decision 21608-D01-2018, paragraph 66.
93 In Exhibit 23789-X0003, ATCO Gas's accounting test Schedule A2 shows a $4,000 capital expenditure for the Wood Buffalo Wildfire Program.
94 Exhibit 23789-X0001, application, paragraph 59.
95 Exhibit 23789-X0001, application, paragraph 61.
96 Exhibit 23789-X0001, application, paragraph 63.
97 Decision 21608-D01-2018, paragraph 97.

92. Consistent with these determinations, the Commission finds that the capital expenditures under the Wood Buffalo Wildfire Program were required to maintain service reliability and safety at adequate levels, thus satisfying the need requirement of project assessment under capital tracker Criterion 1.

93. The Commission accepts ATCO Gas's explanation that although there were no material capital expenditures in 2017 incurred by ATCO Gas, there is an ongoing revenue requirement related to prior year additions (including depreciation, ROE and taxes), necessitating the inclusion of this program in the present 2017 capital tracker true-up application.

7.3 Projects or programs requiring further comment

7.3.1 New Regulating Meter Stations

94. The New Regulating Meter Stations Program consists of installing new stations or upgrading existing stations to increase flow capacity. Projects in this program are driven by customer growth, but are not directly related to new customer additions.

95. The 2017 approved forecast capital expenditures for this program were $3.0 million in the north, while the actual 2017 capital expenditures were $3.6 million, resulting in a $0.66 million variance above forecast. In the south, the 2017 approved forecast capital expenditures for this program were $1.7 million, while the actual 2017 capital expenditures were $2.9 million, resulting in a $1.2 million variance above forecast.[98]

96. ATCO Gas explained that the variance in this program, for both north and south service territories, was due to customer growth being higher than the three-year average used to generate the forecast expenditures. The higher growth resulted in the need for new stations or upgrades to existing facilities.[99]

97. In a Commission IR,[100] ATCO Gas was asked for a breakdown of costs by individual project for the 2017 New Regulation Meter Stations Program. ATCO Gas provided a table showing the actual north and south capital expenditures and additions, by the type of party requesting the work. However, ATCO Gas responded it was unable to provide a breakdown of the cost components, i.e., construction labour and equipment, contractor charges, and materials and supplies by project. ATCO Gas acknowledged it had the requested information, but was unable to provide it because it was not readily available. At the same time, it did provide aggregate information by cost component. It explained that in order to provide the disaggregated information requested it would have to manually review each of the 105 projects that were included in the 2017 New Regulation Meter Stations Program and manually isolate the cost components.

98. In its argument, the CCA asserted that ATCO Gas should be able to provide the basic project costing information requested in the IR. It contended that ATCO Gas not being able to provide the requested information demonstrated a lack of project management capability.[101] The CCA recommended that the Commission direct ATCO Gas to describe in detail how (1) individual project costs were tracked; and (2) deviations from forecast were reviewed for the

98 Exhibit 23789-X0001, application, paragraph 309, Table 109.
99 Exhibit 23789-X0001, application, paragraph 317.
100 Exhibit 23789-X0026, AG-AUC-2018AUG28-027.
101 Exhibit 23789-X0040, CCA argument, paragraph 26.

class of projects described. It also asked the Commission to direct ATCO Gas to develop reporting that permits the evaluation of individual project costing information.[102]

99. ATCO Gas rejected the CCA's claim that being unable to provide the requested cost breakdown reflected a lack of project management capability. The New Regulating Meter Stations Program was forecast using a three-year historical average cost approach at the program level. ATCO Gas accordingly noted that providing a project-by-project breakdown would not be helpful as it could not be compared to the forecast. ATCO Gas submitted that the amount of detail provided was sufficient to determine the reasonableness of the forecast and the same level of detail should be sufficient to determine the prudence of ATCO Gas's 2017 actual costs.[103]

Commission findings

100. The Commission has previously approved the need for the New Regulating Meter Stations Program as part of the project assessment under capital tracker Criterion 1 in Decision 3267-D01-2015[104] and Decision 20604-D01-2016.[105] The Commission finds no evidence on the record of this proceeding to indicate that this program was not required in 2017. Therefore, the Commission did not re-evaluate the need for this program.

101. ATCO Gas has indicated that the New Regulating Meter Stations Program was forecast using a three-year historical average cost approach at the program level, making actual costs difficult to compare to forecast costs. The Commission has reviewed the actual 2017 capital expenditures of $3.6 million in the north and $2.9 million in the south, associated with this program, and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker. The scope, level and timing for this program is also consistent with the requirements approved in Decision 3267-D01-2015. That notwithstanding, the Commission is concerned with ATCO Gas's inability to provide a breakdown of costs by cost category for this program.[106]

102. The Commission agrees with the CCA that ATCO Gas should be able to provide disaggregated actual cost information, when requested, for the New Regulating Meter Stations Program on a project-by-project basis. Although the Commission accepts that ATCO Gas does not currently record these costs on a disaggregated basis for each project, this information would be of assistance to the Commission and parties in determining forecasts, forecasting methodology and actual costs with respect to this program. At the same time, the Commission recognizes there to be some merit in ATCO Gas's argument, namely, that providing the detailed cost breakdown for each of 105 projects would require a manual review of costs for each project, resulting in additional regulatory burden.

103. In light of the above considerations, ATCO Gas is directed to provide in the compliance filing to this decision a breakdown of costs for the New Regulating Meter Stations Program projects identified in the table below. The table reflects the top five projects in terms of capital expenditures for each of ATCO Gas North and ATCO Gas South, representing 45.7 per cent and 58.9 per cent of capital expenditures for this program in each territory, respectively:

102 Exhibit 23789-X0040, CCA argument, paragraph 27.
103 Exhibit 23789-X0043, ATCO Gas reply argument, paragraphs 45-48.
104 Decision 3267-D01-2015, paragraph 427.
105 Decision 20604-D01-2016, paragraphs 333 and 335.
106 Exhibit 23789-X0026, AG-AUC-2018AUG28-027.

Table 8. New Regulating Meter Stations Program top five projects

ATCO Gas North	Station number	Construction labour and equipment	Contractor charges	Materials and supplies	Allocated indirect	Allowance for funds used during construction (AFUDC)	Total
Cawes Lake Gate	72182						
For McMurray Gate 7	71929						
Silica CMS	72145						
Grand Prairie Gate Station #8	72018						
Lodgepole Rural Gate #1	72140						
ATCO Gas South	**Station number**	**Construction labour and equipment**	**Contractor charges**	**Materials and supplies**	**Allocated indirect**	**AFUDC**	**Total**
Olds Gate 2	71955						
Carbon Gate Station	72150						
Lethbridge North Gate	20535						
Coalhurst Gate #2	72035						
Marcia Gate	72053						

7.3.2 Steel Mains Replacement

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

105. For the 2017 planned SMR residential and commercial projects, ATCO Gas used a cost-per-service forecast, based on actual costs from similar 2015 SMR projects adjusted for inflation. The cost-per-service calculation excludes feeder main replacement projects. The Commission approved the capital tracker treatment on a forecast basis for this program for 2017 in Decision 21606-D01-2016. In Decision 21843-D01-2017, the Commission approved an updated 2017 SMR forecast.

106. The table below sets out the forecast to actual variance for this program in 2017:

Table 9. 2017 SMR forecast and actual capital expenditures for north and south

	Forecast	Actual	Variance
	($000)		
Total costs – North	16,938	27,940	11,002
Total costs – South	10,936	16,116	5,180

Source: Exhibit 23789-X0001, application, paragraph 145, Table 9.

107. ATCO Gas submitted that the scope of the overall SMR Program varied from the original forecast in that six additional projects were identified and completed in 2017 (Belmont 2, Tweddle Place, Lauderdale Multifamily, Yellowhead Trail, Raven Place, and Ross Drive), in addition to five projects that were carried over from 2016 (106 Avenue Feeder, Glenmore Trail Feeder, Dover, Marlborough, and High River East-Central), and one project in High River carried over from 2014.

108. The total infrastructure replaced varied from the original forecast with approximately 54.7 per cent more mains and 52.9 per cent more services being replaced, translating into a 52.6 per cent increase in total actual costs relative to forecast.[107]

109. ATCO Gas noted that emergency replacement expenditures were approximately 33 per cent higher than forecast and, in 2017, ATCO Gas's approach to emergency replacement remained consistent with past years. Emergency replacements are forecast based on a three-year average of historical costs. ATCO Gas stated it experienced more emergency work in 2017 than anticipated due to leaks on the system that required more main replacement than historical averages would have predicted.[108]

110. The CCA raised issues with the SMR Program in the context of the integrity assessments required by Decision 20604-D01-2016. It noted that integrity assessments were to be provided as part of the 2017 capital true-up application. The CCA specifically commented on three of the integrity assessments included in the application.[109] According to the CCA, the integrity assessments related to this proceeding "provides strong evidence that AG [ATCO Gas] has completed the replacement of a significant number of assets where the Integrity Assessments provide no evidence the replacement was warranted."[110] The CCA argued that ATCO Gas had not validated its mains replacement programs with testing or sampling. As a result, the CCA claimed that ATCO Gas has not complied with the Commission's direction in Decision 20604-D01-2016 and new integrity assessments must be provided. The CCA concluded that the actual costs for these SMR projects were not prudent and should not be approved.[111]

111. In its argument, the CCA recommended that ATCO Gas be directed, amongst other things, to summarize the findings of the integrity assessments for each project and identify what validation of the ATCO Gas engineering assessment there is for completed work.[112]

112. ATCO Gas rejected the CCA's claims and maintained that its actual SMR costs were prudent. ATCO Gas stated that CCA's focus on the integrity assessment ignores the balance of evidence supporting the work undertaken as part of the SMR Program. The integrity assessment cannot be used to override the SMR model or engineering assessment methodology approved by the Commission in Decision 20604-D01-2016 and subsequent decisions.[113]

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107 Exhibit 23789-X0001, application, paragraph 150, Table 13.
108 Exhibit 23789-X0001, application, paragraph 152.
109 Exhibit 23789-X0040, CCA argument, paragraph 12 lists the three integrity assessments reviewed by the CCA, which are the samples for Strathearn, Dominion and Eastwood.
110 Exhibit 23789-X0040, CCA argument, paragraph 11.
111 Exhibit 23789-X0040, CCA argument, paragraphs 6-19.
112 Exhibit 23789-X0040, CCA argument, paragraph 18.
113 Exhibit 23789-X0043, ATCO reply argument, paragraphs 18-21, referencing Decision 20604-D01-2016, paragraph 178; Decision 21843-D01-2017, paragraphs 191 and 200.

113. ATCO Gas submitted that the purpose, intent and timing of the Commission's direction to ATCO Gas on integrity assessments was clearly set out by the Commission. In particular, in Decision 20604-D01-2016, the Commission found that integrity assessments for all SMR projects completed between the issuance of Decision 20604-D01-2016 and the end of 2016 would "not be used in a retroactive manner to reassess the validity of the 2016 SMR programs, which have been approved using the current methodology; but to assist the Commission with assessing information required for ongoing and future ATCO Gas SMR projects."[114]

114. ATCO Gas submitted that the prudence of its 2017 SMR replacement decisions should be judged on whether they were reasonable based on the information ATCO Gas had at the time the decisions were made, specifically the SMR model demerit scores and the engineering assessments. ATCO Gas added that while after-the-fact information gleaned from integrity assessments may be of some assistance when taken together with all other available and relevant information in evaluating the prudence of decisions, such information in and of itself, is not, nor was it ever intended to be, determinative of either the prudence of the SMR Program generally, or the prudence of the 2017 actual costs.[115]

Commission findings

115. The need for the SMR Program as part of the project assessment under capital tracker Criterion 1 was previously approved by the Commission in Decision 2013-435[116] and Decision 20604-D01-2016.[117] The Commission finds no evidence on the record of this proceeding to indicate that this program was not required in 2017 to provide utility service at adequate levels. Therefore, the Commission did not re-evaluate the need for this program.

116. The CCA's argument regarding the use of integrity assessments is similar to its argument made during the 2016 ATCO Gas capital tracker true-up application. In Decision 22819-D01-2016, the Commission confirmed the role of ATCO Gas's engineering judgement for SMR replacements and rejected the need for third-party verification of replacement decisions. In Decision 22819-D01-2016, the Commission referenced Decision 3267-D01-2015, which stated:

> … The Commission considers that the professional judgement of ATCO Gas engineers should continue to play an important role in the assessment of ATCO Gas steel mains. Nevertheless, the Commission considers that using an objective tool, like the demerit point system, to assess the safety and reliability of ATCO Gas's system that is based primarily on the physical attributes of the pipe being considered and the environment in which it is placed, is helpful in assessing the need for pipe replacements …[118]

117. Further, the findings in paragraph 75 of Decision 20604-D01-2016 expressly determined that the integrity assessments are not to be used in a retroactive manner:

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

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114 Decision 20604-D01-2016, paragraphs 174-175; reproduced in Decision 22819-D01-2018, paragraph 99.
115 Exhibit 23789-X0043, ATCO argument, paragraphs 26-29.
116 Decision 2013-435, paragraph 636.
117 Decision 20604-D01-2016, paragraphs 164 and 177; Decision 21843-D01-2017, paragraph 192.
118 Decision 3267-D01-2015, paragraph 231.

> the Commission with assessing the information required for ongoing and future ATCO Gas SMR projects.

118. The Commission finds that the integrity assessments do provide valuable information about the SMR projects and replacements. The integrity assessments include the demerit point system ratings, leak analysis and explanation of the other factors relevant to SMR replacements. Based on the information provided in the integrity assessments on the record of this proceeding, the Commission does not agree with the CCA that further directions on integrity assessments are required. Integrity assessments were provided for the majority of 2017 SMR projects and ATCO Gas has sufficiently complied with the Commission's direction in paragraphs 174 and 175 of Decision 20604-D01-2016.

119. On a go-forward basis, the Commission determines that integrity assessments do not need to be provided because there will be other means for asset monitoring related to public utilities under the Commission's jurisdiction. However, ATCO Gas should retain the ability to maintain detailed records for SMR replacement projects that may be required by the Commission for asset monitoring purposes. This matter is further discussed in Section 13 of this decision.

120. With respect to the prudence of actual costs for the SMR program, the Commission has affirmed that the approvals of expenditures for the SMR program have generally been associated with a defined set of projects and, therefore, the Commission will not approve capital expenditures without a clear understanding of the need for the project. However, a company does not have to wait for the Commission's approval of its forecast for capital tracker treatment before it proceeds with projects required to maintain service, reliability and safety at adequate levels. Nor does this prevent ATCO Gas from receiving its reasonable compensation for all prudently incurred project costs at the time of its true-up application.[119] However, the burden of proof to establish prudence lies with the applicant. The prudence test was set out in Decision 2001-110:

> In summary, a utility will be found prudent if it exercises good judgment and makes decisions which are reasonable at the time they are made, based on information the owner of the utility knew or ought to have known at the time the decision was made. In making decisions, a utility must take into account the best interests of its customers, while still being entitled to a fair return.[120]

121. The Commission finds that ATCO Gas has provided variance explanations and supporting reasons for the prudence of its actual costs. The capital expenditures were explained for the SMR projects in the business cases and IRs, which in turn support the variances between forecasts and actual costs. For example, ATCO Gas explained that the large variance for the 106 Avenue Feeder project was caused by heavy precipitation, which flooded open excavations and resulted in the need for additional hydrovac, trench stabilization and shoring. The City of Edmonton also requested the main be installed at greater depth to accommodate road construction, which resulted in further increased costs.[121] This example illustrates that there were projects that could not have been anticipated at the time the 2017 SMR forecast was prepared and were reasonably included in the SMR Program on an actual costs basis for 2017.

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[119] Decision 20604-D01-2016, paragraph 181.

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

[121] Exhibit 23789-X0001, application, paragraph 171.

122. The Commission finds that the 2017 actual costs for the SMR Program are sufficiently supported and, therefore, finds these costs to be prudent.

7.3.3 Transmission Driven Capital

123. The Transmission Driven Capital Program relates to projects ATCO Gas must undertake when a transmission company, either ATCO Pipelines or NOVA Gas Transmission Ltd., makes a change to its transmission system that requires a corresponding change to ATCO Gas's distribution facilities.

124. The table below sets out the forecast to actual variances for this program in 2017:

Table 10. 2017 transmission driven forecast and actual capital expenditures

	Forecast	Actual	Variance
	($000)		
Total costs – North	16,969	17,751	782
Total costs – South	27,376	43,812	16,436

Source: Exhibit 23789-X00001, application, paragraph 43, Table 43.

125. The most significant projects in this program are the distribution projects required as a result of the ATCO Pipelines' UPR Program to replace and relocate several high-pressure pipelines to the transportation utility corridors in the Calgary and Edmonton areas.

126. ATCO Gas explained that in 2017 it continued to work closely with ATCO Pipelines in the UPR Program. ATCO Gas noted that in 2017, it aligned and optimized its work and schedules with ATCO Pipelines, the cities of Edmonton and Calgary, and other outside parties. ATCO Gas stated that adjustments to the timing of several projects reduced the overall impact of this work on customers.[122]

127. The UCA took issue with increases in net book value (NBV) related to assets transferred from ATCO Pipelines to ATCO Gas under some of the UPR projects that have been delayed. The UCA submitted that customers are paying more for the assets transferred, at least in part because additional capital work was completed by ATCO Pipelines on the assets because of the time that elapsed during the project delays. Specifically, the UCA was concerned with the following:

- This additional capital work was done to the high-pressure standards of transmission rather than the lower pressure standards of a distribution system.
- There is no evidence that ATCO Pipelines sought to minimize the work being done on assets that were to be transferred.
- Since ATCO Pipelines had control over the projects that led to the transfer of UPR projects to ATCO Gas, there is an incentive to benefit the ATCO Group by increasing the amount transferred, resulting in a higher rate base.
- ATCO Gas has not provided evidence that the increases in NBV that arise as a result of delays in UPR projects are prudent from the perspective of the distribution system.[123]

[122] Exhibit 23789-X0001, application, paragraphs 216-218.
[123] Exhibit 23789-X0039, UCA argument, paragraphs 2-11.

128. The UCA submitted that all increases in NBV that are a result of project delays by ATCO Pipelines should be removed from the actual costs included in the 2017 capital tracker true-up since there is no evidence that the increases were prudently incurred from a distribution perspective.[124]

129. ATCO Gas disagreed with the UCA's assertion that the delay in a number of UPR projects has resulted in an increase in the NBV of assets transferred from ATCO Pipelines. ATCO Gas made the following points:

- ATCO Gas has an obligation to serve and to minimize interruptions of gas distribution service to its customers.
- As high-pressure transmission lines are relocated, ATCO Gas must ensure the related changes to its distribution system are made in a timely manner.
- The UCA's suggestion that ATCO Gas should be penalized for cost increases that result from project delays by ATCO Pipelines is fundamentally unreasonable.
- ATCO Gas's prudent costs of serving customers should be recoverable in rates.[125]

130. ATCO Gas disputed that the increases in NBV were the result of timing delays. Rather, it submitted that the NBV increases were the result of the following:

- The original NBV estimate netted the contributions against the ATCO Gas capital expenditures but the actual ATCO Gas capital expenditures and contributions were transferred and recorded separately. This represents 31 per cent of the increase in NBV in the south and 40 per cent in the north.
- In some cases, additional assets were required as part of the transfer due to the completion of the detailed design.
- Additional capital work was completed on transmission lines after the original estimate was generated. ATCO Gas stated that it provided information in its application regarding projects that occurred over two years or more after the original NBV estimate was generated.[126]

131. ATCO Gas also denied the UCA's suggestion that capital work completed on the transmission assets after the original NBV estimate was generated may have been in excess of the needs of the distribution system. ATCO Gas added that the UCA provided no evidence to support this claim. ATCO Pipelines is obligated to ensure the safety and reliability of the transmission system whether or not some of those assets might be used for distribution service in the future. Ensuring the safety and reliability of the system during the two years or more since the original NBV estimates were created included necessary additional capital work on the transmission assets. ATCO Gas also submitted that, in any event, there is no suggestion that the acquisition and redeployment of the former transmission assets in distribution service was more costly than an option such as constructing new distribution pipeline facilities. ATCO Gas

124 Exhibit 23789-X0039, UCA argument, paragraph 12.
125 Exhibit 23789-X0043, ATCO Gas reply argument, paragraphs 8-9.
126 Exhibit 23789-X0043, ATCO Gas reply argument, paragraphs 11-13.

asserted that the UCA has failed to provide evidence that demonstrates the acquisition of UPR assets at the updated NBV was imprudent.[127]

Commission findings

132. The need for the Transmission Driven Capital Program as part of the project assessment under capital tracker Criterion 1 was previously approved by the Commission in Decision 2013-435,[128] Decision 3267-D01-2015[129] and Decision 20604-D01-2016.[130] The Commission finds there is insufficient evidence on the record of this proceeding to indicate that this program was not required to provide utility service at adequate levels in 2017. Therefore, the Commission did not re-evaluate the need for this program.

133. Regarding the actual scope, level, timing and costs associated with the 2017 actual capital additions for the Transmission Driven Capital program, at paragraph 116 of Decision 22819-D01-2018, the Commission provided the following direction:

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

134. ATCO Gas provided the report in Appendix F.[131]

135. With the exception of the issue of the prudence of the increase in NBV of the UPR portion of the Transmission Driven Capital Program, as discussed in this section, the Commission finds that the capital expenditures incurred in 2017 and the variances were reasonable. Accordingly, subject to this exception, the Commission finds the actual costs for the Transmission Driven Capital Program to be prudent for 2017.

136. In respect of the UPR portion of the Transmission Driven Capital Program, the Commission accepts the submissions of ATCO Gas and finds that the delay in a number of UPR projects was not the cause of the increase in the NBV of assets transferred from ATCO Pipelines.

137. However, the Commission considers that ATCO Gas has not adequately explained all of the material increases in NBV. Accordingly, ATCO Gas is directed to provide a list in the compliance filing to this proceeding that includes each UPR pipeline project, a detailed description and associated dollar amounts of the additional assets required as of the time of the transfer of assets. The additional assets that must be included in the list are those assets required to complete the detailed design and those assets that were required due to the additional capital work completed on the transmission line two years or more after the original NBV estimate was generated.

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127 Exhibit 23789-X0043, ATCO Gas reply argument, paragraphs 14-16.
128 Decision 2013-435, paragraph 679.
129 Decision 3267-D01-2015, paragraph 344.
130 Decision 20604-D01-2016, paragraphs 262 and 266.
131 Exhibit 23789-X0012, Appendix F – UPR Program Update.

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

8.1 Accounting test for the 2017 true-up

138. As explained in Decision 2013-435, the purpose of the accounting test is to determine whether a project or program (depending on the approved level of grouping) proposed for capital tracker treatment is outside the normal course of the company's ongoing operations. This is achieved by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the project or program.[132] A summary description of the accounting test was provided in Section 7.1 of Decision 20555-D01-2016,[133] at paragraphs 460 to 468.

139. ATCO Gas's accounting test model for the 2017 capital tracker true-up was provided in the application.[134] For the 2017 capital tracker true-up, ATCO Gas used the following assumptions in its accounting test:

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

2017 approved I-X index	(1.92%)
2017 approved Q	1.20% north 1.32% south
Weighted average cost of capital (WACC) rate embedded in ATCO Gas's going-in rates used in the first component of the accounting test[135]	7.07%
2017 actual WACC rate used in the second component of the accounting test	6.369%

Source: Exhibit 23789-X0001, application, paragraph 36.

140. ATCO Gas's actual 2017 WACC rate of 6.369 per cent is based on the actual cost of debt of 5.20 per cent, the approved equity thickness of 37 per cent and the approved ROE of 8.5 per cent, as determined in the 2016 generic cost of capital (GCOC) Decision 20622-D01-2016.[136]

141. No party raised issues with ATCO Gas's accounting test assumptions.

Commission findings

142. The Commission finds the schedules that make up ATCO Gas's accounting test for the purposes of the 2017 capital tracker true-up to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. The Commission has verified ATCO Gas's WACC, I-X and Q (customer growth) assumptions used in the first component of the accounting test, and finds that ATCO Gas used the correct values.

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

[133] Decision 20555-D01-2016: ATCO Electric Ltd., 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 20555, March 3, 2016.

[134] Exhibit 23789-X0001, application, paragraph 36; Exhibit 23789-X0002, Appendix A – Accountability and materiality; Exhibit 23789-X0003, Appendix A – Schedules A1-A7; Exhibit 23789-X0004, Appendix A – Schedules A8.1-A8.3.

[135] Proceeding 2131: Distribution Performance-Based Regulation 2013 Capital Tracker Applications, Exhibit 0036.04.ATCO GAS-2131, Tab "Reasoned Demonstration N."

[136] Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.

143. In Decision 3434-D01-2015, the Commission determined that revenue requirement calculations in the second component of the accounting test should be based on the current year's WACC rate which, in turn, is calculated based on the actual or forecast cost of debt, as well as the approved ROE and capital structure for that year.[137] No party raised concerns with ATCO Gas's calculations of the 2017 actual WACC rate. Therefore, the Commission finds ATCO Gas's 2017 actual WACC rate of 6.369 per cent used in the second component of its accounting test, which is based on the 2017 actual weighted average cost of debt of 5.20 per cent (from ATCO Gas's 2017 Rule 005 filing[138]), the equity thickness of 37 per cent and ROE of 8.5 per cent (the latter two items were both approved in Decision 20622-D01-2016), to be reasonable.

144. For the reasons above, the Commission is satisfied that ATCO Gas's accounting test model sufficiently demonstrates that all of the actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the accounting test component of Criterion 1. The Commission's determinations on whether ATCO Gas's projects or programs proposed for capital tracker treatment in 2017 on an actual basis satisfy both the accounting test and the project assessment components of Criterion 1 are set out in Section 8.2 below.

8.2 Commission's conclusions on Criterion 1

145. In Section 7 of this decision, based on the project assessment under Criterion 1, the Commission approved the need, scope, level, timing and the prudence of actual capital additions for each project or program that ATCO Gas included in the 2017 true-up with the exception of the New Regulating Meter Stations Program and the UPR portion of the Transmission Driven Capital Program. The Commission issued directions to ATCO Gas to provide more information for these programs in the compliance filing to this decision. The Commission, therefore, determines that for the purposes of this decision ATCO Gas's programs or projects included in the 2017 true-up satisfy the project assessment requirement of Criterion 1, subject to any adjustments arising from ATCO Gas's compliance filing regarding the New Regulating Meter Stations Program and the UPR portion of the Transmission Driven Capital Program.

146. For the reasons provided in sections 7 and 8.1 of this decision, the Commission finds that all of ATCO Gas's programs or projects included in the 2017 true-up satisfy the requirements of Criterion 1 for capital tracker treatment, subject to any adjustments arising from ATCO Gas's compliance filing in order to account for the Commission's findings and directions in this decision.

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

147. With respect to Criterion 2, the Commission clarified in Decision 2013-435 that, in addition to asset replacement projects and projects required by an external party, in principle, a growth-related project will satisfy the requirements of Criterion 2 where it can be demonstrated that customer contributions, together with incremental revenues allocated to the project on some reasonable basis, when added to the revenue provided under the I-X mechanism, are insufficient

[137] Decision 3434-D01-2015, paragraph 40.
[138] Rule 005, ATCO Gas Distribution, Schedule 2.

to offset the revenue requirement associated with the project in a PBR year.[139] Certain projects proposed for capital tracker treatment that do not fall into any of the growth-related, asset replacement or external party related categories might also satisfy Criterion 2 in certain circumstances, as discussed in Section 3.2.4 of Decision 2013-435.[140]

148. 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 prior capital tracker decisions, there is no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program has changed. In the application, ATCO Gas confirmed that "none of the drivers for the capital tracker programs that ATCO Gas is applying for true-up in this application have changed" for the purposes of assessing Criterion 2.[141]

149. In the application, ATCO Gas noted that its new Wood Buffalo Wildfire Program was required in 2017 for the replacement of existing assets and, therefore, it satisfies Criterion 2.[142]

Commission findings

150. Consistent with the determinations in Section 4 of this decision, because the driver or drivers (e.g., replacement of existing assets, external party, growth) for each project or program included in ATCO Gas's 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 prior capital tracker decisions, and most recently in Decision 20604-D01-2016, there is no need to undertake a reassessment of these programs or projects against the Criterion 2 requirements.

151. The Commission has reviewed the Wood Buffalo Wildfire Program and agrees with ATCO Gas that costs were required to replace assets damaged or destroyed during the Wood Buffalo wildfires. For this reason, the Commission finds that this program meets the requirements of Criterion 2.

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

152. Section 8.1 of this decision addressed ATCO Gas's accounting test, which determines whether all of the actual capital additions for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy Criterion 1. This is established by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital additions for the program or project proposed for capital tracker treatment.

153. 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

139 Decision 2013-435, paragraph 309.
140 Decision 2013-435, paragraph 314.
141 Exhibit 23789-X0001, application, paragraph 25.
142 Exhibit 23789-X0001, application, paragraph 77.

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.[143]

154. In Decision 2013-435, the Commission calculated the four basis point threshold and the 40 basis point threshold based on the dollar value of ATCO Gas's ROE in 2012. The Commission indicated that in subsequent PBR years, the four basis point threshold and the 40 basis point threshold are to be calculated by escalating the respective 2012 amounts by I-X.[144]

155. For the 2017 capital tracker true-up, ATCO Gas used the 2017 four basis point threshold of $0.148 million for the north and $0.121 million for the south, and the 40 basis point threshold of $1.48 million for the north and $1.21 million for the south.[145] These amounts were calculated by escalating the respective 2012 amounts by the approved 2013, 2014, 2015, 2016 and 2017 I-X index values. ATCO Gas then assessed each of the capital tracker projects included in the 2017 true-up against the two-tiered materiality test, in accordance with the requirements set out in Decision 2013-435.

Commission findings

156. For its 2017 true-up calculations, ATCO Gas used the 2017 first and second tier materiality thresholds, based on the approved 2013, 2014, 2015, 2016 and 2017 I-X index values. The Commission has reviewed ATCO Gas's calculations, and is generally satisfied that ATCO Gas has interpreted and applied the Criterion 3 two-tiered materiality test properly for the purposes of its 2017 capital tracker true-up, based on the projects and assumptions included in the application.

157. Accordingly, the Commission finds that all of ATCO Gas's projects or programs included in the 2017 true-up satisfy the Criterion 3 materiality test requirements, subject to any information required in ATCO Gas's compliance filing regarding the New Regulating Meter Stations Program and the UPR portion of the Transmission Driven Capital Program.

11 ATCO Gas's compliance with Commission directions

158. In Decision 20604-D01-2016 and Decision 22819-D01-2018, the Commission issued a number of directions to ATCO Gas that were applicable to this capital tracker proceeding. ATCO Gas's responses to the Commission directions were provided in Section 2.0 of its application.[146]

Commission findings

159. The Commission has reviewed ATCO Gas's responses to the directions applicable to this proceeding and is satisfied that ATCO Gas has complied with these directions.

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143 Decision 2013-435, paragraphs 382-385.
144 Decision 2013-435, paragraphs 378 and 384.
145 Exhibit 23789-X0001, application, paragraph 36.
146 Exhibit 23789-X0001, application, paragraphs 14-33.

12 2017 K factor true-up calculations

160. In Decision 21606-D01-2016 and Decision 21843-D01-2017, the Commission approved the 2017 forecast K factors of \$36.7 million and \$25.7 million to be recovered from ATCO Gas's customers in the north and south, respectively, on an interim basis.[147] As part of the 2017 capital tracker true-up, ATCO Gas calculated its actual 2017 K factors to be \$34.6 million and \$28.6 million in the north and south, respectively,[148] resulting in a proposed 2017 K factor true-up adjustment of \$2.08 million to be refunded to customers in the north and \$2.89 million to be collected from the customers in the south, as shown in Table 1 from Section 5 of this decision.

Commission findings

161. In Section 7 of this decision, the Commission confirmed the prudence of actual capital expenditures associated with ATCO Gas's projects or programs included in the 2017 capital tracker true-up, subject to the information to be provided in the compliance filing to this decision. In sections 8, 9 and 10, the Commission concluded that ATCO Gas's programs or projects included in the 2017 capital tracker true-up satisfy the requirements of the remaining capital tracker criteria, subject to any information required in ATCO Gas's compliance filing regarding the New Regulating Meter Stations Program and the UPR portion of the Transmission Driven Capital Program.

162. Accordingly, the Commission approves the actual 2017 K factors of \$34.6 million in the north and \$28.6 million in the south and the associated K factor true-up refund of \$2.08 million in the north and the true-up collection of \$2.89 million in the south, subject to any adjustments arising from ATCO Gas's compliance filing on the New Regulating Meter Stations Program and the UPR portion of the Transmission Driven Capital Program, as directed in Section 7 of this decision.

13 Service quality and asset monitoring

163. The present 2017 capital tracker true-up application is ATCO Gas'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 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.

164. 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

[147] Decision 21606-D01-2016, Table 11; Decision 21843-D01-2017, Table 13 and paragraph 200.
[148] Exhibit 23789-X0001, application, Table 2.

sees necessary, and can allocate K-bar funding among projects or to operational expenses in managing its business.

165. 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.[149] 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.[150]

166. In Decision 22394-D01-2018, 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.

167. 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,[151] 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 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.

168. 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.

> 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 [minimum filing requirement] and GRA [general rate application] 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.[152]

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149 Decision 2012-237, paragraph 864.
150 Decision 20414-D01-2016 (Errata), paragraph 260.
151 Rule 002: *Service Quality and Reliability Performance Monitoring and Reporting for Owners of Electric Distribution Systems and for Gas Distributors.*
152 Decision 2012-237, paragraph 863.

169. Specifically as it concerns ATCO Gas's SMR program, the Commission expects that ATCO Gas will continue to evaluate SMR replacement projects using the current SMR model and that it will maintain detailed records for SMR replacement projects that may be required by the Commission for asset monitoring purposes.

14 Order

170. It is hereby ordered that:

(1) ATCO Gas and Pipelines Ltd. is directed to file a compliance filing application in accordance with the Commission's findings and directions in this decision, on or before February 19, 2019.

Dated on January 22, 2019.

Alberta Utilities Commission

(original signed by)

Bohdan (Don) Romaniuk
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Gas and Pipelines Ltd. (ATCO Gas or AG)
Consumers' Coalition of Alberta (CCA)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP

Alberta Utilities Commission Commission panel D. Romaniuk, Commission Member Commission staff A. Sabo (Commission counsel) E. Deryabina G. MacIntyre P. Howard A. Jukov B. Edwards

Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. In light of the above considerations, ATCO Gas is directed to provide in the compliance filing to this decision a breakdown of costs for the New Regulating Meter Stations Program projects identified in the table below. The table reflects the top five projects in terms of capital expenditures for each of ATCO Gas North and ATCO Gas South, representing 45.7 per cent and 58.9 per cent of capital expenditures for this program in each territory, respectively:

Table 8. New Regulating Meter Stations Program top five projects

ATCO Gas North	Station number	Construction labour and equipment	Contractor charges	Materials and supplies	Allocated indirect	Allowance for funds used during construction (AFUDC)	Total
Cawes Lake Gate	72182						
For McMurray Gate 7	71929						
Silica CMS	72145						
Grand Prairie Gate Station #8	72018						
Lodgepole Rural Gate #1	72140						
ATCO Gas South	**Station number**	**Construction labour and equipment**	**Contractor charges**	**Materials and supplies**	**Allocated indirect**	**AFUDC**	**Total**
Olds Gate 2	71955						
Carbon Gate Station	72150						
Lethbridge North Gate	20535						
Coalhurst Gate #2	72035						
Marcia Gate	72053						

.... Paragraph 103

2. However, the Commission considers that ATCO Gas has not adequately explained all of the material increases in NBV. Accordingly, ATCO Gas is directed to provide a list in the compliance filing to this proceeding that includes each UPR pipeline project, a detailed description and associated dollar amounts of the additional assets required as of the time of the transfer of assets. The additional assets that must be included in the list are those assets required to complete the detailed design and those assets that were required due to the additional capital work completed on the transmission line two years or more after the original NBV estimate was generated. .... Paragraph 137

3. It is hereby ordered that:

   (1)ATCO Gas and Pipelines Ltd. is directed to file a compliance filing application in accordance with the Commission's findings and directions in this decision, on or before February 19, 2019... Paragraph 170

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

(return to text)

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

1 Proceeding 2131, 2012 PBR Capital Tracker Filings.

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

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

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

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

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

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

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

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

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

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

Commission approvals and directions	**Decision**	**Decision/proceeding reference**
The Commission approved ATCO Gas's 2016 actual K factor of $24.9 million and $17.1 million for the north and south, respectively, and directed ATCO Gas to include these amounts as part of a proceeding to establish its 2018 PBR rates.	Decision 22819-D01-2018	Paragraphs 140-142
The Commission approved, on an interim basis, ATCO Gas's 2018 PBR rates.	Decision 23355-D01-2018 (Errata)[12]	
The Commission approved, on an interim basis, ATCO Gas's 2019 PBR rates.	Decision 23894-D01-2018 [13]	Paragraph 89

[12] Decision 23355-D01-2018 (Errata): 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 29, 2018.

[13] Decision 23894-D01-2018: ATCO Gas and Pipelines Ltd., 2019 Annual Performance-Based Regulation Rate Adjustment Filing Proceeding 23894, December 14, 2018.