AUC
Alberta Utilities Commission

ATCO Pipelines

Compliance Filing to Decision 2013-064 – 2012 Final Revenue Requirement Application

August 30, 2013

The Alberta Utilities Commission
Decision 2013-326: ATCO Pipelines
Compliance Filing to Decision 2013-064 – 2012 Final Revenue Requirement Application
Application No. 1609406
Proceeding ID No. 2511

August 30, 2013

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1 Introduction

1. ATCO Pipelines filed an application with the Alberta Utilities Commission (the AUC or the Commission) on March 21, 2013, requesting approval of ATCO Pipelines' compliance filing to Decision 2013-064,[1] ATCO Pipeline's 2012 Final Revenue Requirement application. The compliance application is to establish the final revenue requirement for 2012 subject to the remaining placeholders identified in Decision 2010-228[2] and subsequently in Decision 2013-064.

2. On March 25, 2013, the AUC issued a notice of application requiring interested parties to submit a statement of intent to participate (SIP) by April 8, 2013.

3. The Commission received SIPs from the Canadian Association of Petroleum Producers (CAPP), the Office of the Utilities Consumer Advocate (UCA), NOVA Gas Transmission Ltd. (NGTL), Encana Corporation and the Consumers' Coalition of Alberta (CCA). Each of CAPP, the UCA and the CCA requested an opportunity to submit information requests (IRs).

4. The Commission established the following written process schedule for this compliance application:

Process step	Due date
IRs to applicant	April 22, 2013
IR responses from applicant	May 2, 2013
Argument	May 13, 2013
Reply argument	May 23, 2013

5. On July 25, 2013, the Commission determined that a second round of Commission IRs to ATCO Pipelines was required. Responses were due July 30, 2013. The Commission also provided interveners an opportunity to comment on the responses by August 2, 2013.

6. ATCO Pipelines submitted its IR responses on July 30, 2013, along with a request to be given the right to reply to the submissions of the interveners.

7. A supplemental submission was received from the CCA on August 2, 2013.

1 Decision 2013-064: ATCO Pipelines, 2012 Final Revenue Requirement Application, Application No. 1608689, Proceeding ID No. 2041, February 28, 2013.

2 Decision 2010-228: ATCO Pipelines, 2010-2012 Revenue Requirement Settlement and Alberta System Integration, Application No. 1605226, Proceeding ID No. 223, May 27, 2010.

8. In a letter dated August 7, 2013, the Commission granted ATCO Pipelines an opportunity to respond to the supplemental submission of the CCA by August 13, 2013.

9. ATCO Pipelines filed a response to the CCA supplemental submission on August 13, 2013.

10. The Commission considers that the record for this proceeding closed on August 13, 2013.

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

2 Background

12. In Decision 2010-228, the Commission approved a negotiated settlement agreement[3] (settlement) between ATCO Pipelines and its customers that established a methodology to calculate the revenue requirements for each of 2010, 2011 and 2012. ATCO Pipelines' initial forecast revenue requirements of $211,782,000 for 2010, $207,482,000 for 2011 and $215,182,000 for 2012 were approved subject to future adjustments in accordance with the terms of the settlement. The settlement included a provision that, for each test year, ATCO Pipelines was to file interim revenue requirement and final revenue requirement applications with the AUC.

13. ATCO Pipelines filed an application, Proceeding ID No. 2041, with the Commission on July 27, 2012, requesting approval of its 2012 final revenue requirement of approximately $192 million. ATCO Pipelines also requested that the Commission approve:

- ATCO Pipelines' 2012 forecast capital expenditures which includes capital expenditures related to three of ATCO Pipelines' urban pipeline initiative projects (UPI), referred to in this decision as urban pipelines replacement (UPR)
- the settlement of several ATCO Pipelines deferral account balances, with the net effect (refund) of the disposition of the deferral account balances in the amount of $5,978,000 to be applied to ATCO Pipelines' revenue requirement
- the discontinuance of ATCO Pipelines North/South reporting effective 2013
- ATCO Pipelines' compliance with the Commission's directions in Decision 2012-110[4]

14. On February 28, 2013, the Commission released Decision 2013-064 with respect to Proceeding ID No. 2041 and directed ATCO Pipelines to file a compliance application based on the Commission's findings.

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3 Ibid., Appendix 2.

4 Decision 2012-110: ATCO Pipelines, ATCO Gas and Pipelines Ltd., CU Inc., Canadian Utilities Limited, Disposition of Muskeg River Pipeline Assets, Application No. 1607867, Proceeding ID No. 1552, April 20, 2012.

15. This proceeding considers the compliance application filed by ATCO Pipelines pursuant to the directions set out in Decision 2013-064.

3 Details of compliance application

16. The table[5] below provides a comparison between ATCO Pipelines' revenue requirement as filed in Proceeding ID No. 2041 and the adjusted revenue requirement set out in the compliance application based on Commission directions in Decision 2013-064.

Table 1. ATCO Pipelines utility revenue requirement ($000)

	2012	
	Application	**Compliance filing**
Mid-year rate base	887,547	847,117
Rate of return	7.2223%	7.2139%
Return on rate base	64,101	61,110
Operation and maintenance	60,390	60,390
Taxes other than income	14,885	14,885
Net depreciation	46,580	46,207
Income taxes	6,642	7,821
Total utility income	**192,598**	**190,413**

17. In Decision 2013-064, the Commission identified the following costs as placeholders in ATCO Pipelines' 2012 forecast revenue requirement that will require further determination and resolution in ATCO Pipelines' 2013-2014 revenue requirement application

Table 2. Placeholders included in ATCO Pipelines' 2012 forecast revenue requirement[6]

Description	**($000)**
Evergreen II proceeding – O&M	3,699
Evergreen II proceeding – capital	3,200
Integration costs/(savings) – O&M labour	(2,502)
Integration costs/(savings) – O&M supplies	(2,183)
Pension common matters	5,000
Hearing costs	700
Property tax	13,599

18. Table 3 below makes further adjustments to ATCO Pipelines' revenue requirement of $190,413,000 to reflect the net effect of all additional adjustments as per Direction 10 from Decision 2013-064.

5 Exhibit 4, compliance application, page 2, Table 1.
6 Decision 2013-064, Table 6.

Table 3. 2012 revenue requirement adjusted for Direction 10 of Decision 2013-064[7] ($000)

2012 final revenue requirement per Table 1			190,413
Refund of 2012 surplus Salt Cavern assets[8]			759
Adjusted 2012 final revenue requirement			189,654
Net refund of deferral account application			7,321
Original deferral account refund		5,978	
AUC Decision 2011-474[9]	1,264		
AUC Decision 2011-494[10]	57	1,321	
Revised net refund		7,299	
Additional adjustments			
Rider H (OPD) residual		(34)	
Adjusted for necessary working capital included in pension deferral account		56	
Revised deferral account refund		7,321	
Refund of surplus Salt Cavern assets[11]			2,269
Net effect			180,064

19. With respect to the above Table 3, in Decision 2013-064 the Commission approved ATCO Pipelines' net refund of $7,321,000 associated with the clearing of the deferral accounts balances.[12] ATCO Pipelines' $759,000 adjustment to its 2012 final revenue requirement and a further refund of $2,269,000 with respect to the Salt Cavern assets reflect the Commission's findings from Decision 2012-277.[13]

20. As a result of the above, ATCO Pipelines is applying for a 2012 final revenue requirement of $189,654,000 subject to:

(i) the adjustments and refunds identified in Table 3 and paragraph 19 above, resulting in a net 2012 revenue requirement of $180,064,000; and

(ii) the finalization of all outstanding 2012 placeholders as identified in Table 2

4 Directions from Decision 2013-064

21. In the following sections of this decision, the Commission will address ATCO Pipelines' compliance with the directions from Decision 2013-064 and the related intervener submissions.

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7 Exhibit 4, compliance application, page 3, Table 2.

8 Decision 2012-277: ATCO Pipelines, Compliance Filing to Decision 2012-068 Disposition of Surplus Salt Cavern Assets in the Fort Saskatchewan Area, Application No. 1608423, Proceeding ID No. 1865, October 15, 2012, Appendix 3, 2012 refund.

9 Decision 2011-474: 2011 Generic Cost of Capital, Application No. 1606549, Proceeding ID No. 833, December 8, 2011.

10 Decision 2011-494: ATCO Pipelines, 2011 Final Revenue Requirements, Final Rates Filing and Deferral Account, Application No. 1607451, Proceeding ID No. 1314, December 20, 2011.

11 Decision 2012-277, Appendix 3, pre-2012 refund $2,141, pre-2012 interest $95, 2012 interest $33.

12 Decision 2013-064, paragraph 129.

13 Decision 2012-277, Appendix 3.

4.1 Directions 1 to 6

22. Commission directions 1 through 6 in Decision 2013-064 required adjustment of specific capital expenditures that were included in ATCO Pipelines' original filing. Direction 6 also directed ATCO Pipelines to make adjustments to its forecast using the response to AUC-AP-11(a-b) from Proceeding ID No. 2041 as a starting point. Directions 1 to 6 of Decision 2013-064 stated:

> Direction 1
> 77. Further, in its notice of Proceeding ID No. 1995, the Commission indicated that the proceeding was not intended to review Decision 2011-404 or Decision 2011-494. Given the standalone nature of the northwest Edmonton connector, that it is currently in operation, and that it has been determined that the pipeline is in the public interest, the Commission finds that it is reasonable to include the northwest Edmonton connector in ATCO Pipelines' final revenue requirement. Because the southeast Calgary connector and east Calgary connector are the subject of Proceeding ID No. 1995, the need and justification for these projects have not yet been determined to be in the public interest, and the projects have not received the related license and permit approvals, the Commission directs ATCO Pipelines to remove these two projects from its 2012 capital expenditures forecast in the compliance filing to this decision.
>
> Direction 2
> 88. The Commission considers that the underlying justification for the Red Deer connector is the requirement to meet future demand growth in the Red Deer area. In AUC-AP-6(b), ATCO Pipelines explained that since integration, NGTL is now providing higher pressure delivery to the ATCO Pipelines transmission system in the Red Deer area, thereby increasing capacity of the existing ATCO Pipelines facilities. Further, NGTL's demand growth forecast is lower than what was used by ATCO Pipelines in the business case. Although ATCO Pipelines indicated that the pipeline should also be replaced due to integrity concerns, the Commission considers that ATCO Pipelines failed to provide evidence to warrant approving the project due to integrity issues, given the change in capacity in the Red Deer area. The inclusion of the Red Deer project in ATCO Pipelines' 2012 forecast capital expenditures is therefore denied and ATCO Pipelines is directed to remove this capital project from its capital expenditure forecast in its compliance filing to this decision
>
> Direction 3
> 83. Following its review of ATCO Pipelines' Norma transmission project, the Commission is satisfied that ATCO Pipelines has justified its forecast capital expenditures in 2012 for this project. Accordingly, ATCO Pipelines is directed to remove the Redwater extension capital expenditure and replace it with the costs of the Norma transmission project.
>
> Direction 4
> 84. Because the Pembina project has been cancelled, the Commission finds that it is reasonable for ATCO Pipelines to update its 2012 forecast capital expenditures to reflect the cancelled Pembina project. ATCO Pipelines is therefore directed to remove Pembina from ATCO Pipelines' 2012 forecast capital expenditures forecast in the compliance filing.
>
> Direction 5
> 86. The Commission therefore agrees with CAPP that ATCO Pipelines' facility maintenance tracking system, Oracle E Business Upgrade and Shepard power plant

delivery projects should be excluded from ATCO Pipelines' 2012 capital expenditures forecast due to the absence of business cases to support these expenditures in the 2012 test year. ATCO Pipelines is directed to remove the capital costs of these projects in its compliance filing to this decision.

Direction 6
88. Based on the above, the Commission directs ATCO Pipelines to use the updated 2012 capital expenditures forecast included in AUC-AP-11(a-b) in the compliance filing, less the UPR and non-UPR related capital expenditures and projects that the Commission has denied in this decision. The Commission notes that in Table 2 the Bonnie Glen and Norma replacement projects are not anticipated to be in-service until the third and fourth quarters of 2013 respectively. ATCO Pipelines is directed to confirm, in its compliance filing, whether the associated capital expenditures for these two projects are included in ATCO Pipelines' forecasted CWIP [construction work in progress] until the projects meet the requirement for asset capitalization.

23. The interveners argued that ATCO Pipelines had not provided underlying calculations and explanations by direction and by disallowed project in a manner that would allow a proper reconciliation of required adjustments to various line items in ATCO Pipelines' revenue requirement and permit parties to ascertain whether or not ATCO Pipelines had complied with directions 1 to 6 from Decision 2013-064. Interveners raised concerns with respect to the following matters:

- depreciation
- capital cost allowances
- taxes other than income
- allowance for funds used during construction (AFUDC)
- accounting policies

4.1.1 Depreciation

24. The CCA submitted that further and better information must be provided to support ATCO Pipelines' depreciation expense. The CCA made its submission based on the fact that ATCO Pipelines was directed to make capital reductions of $21,691,000[14] in 2011 and $70,728,000[15] [16] in 2012 but, ATCO Pipelines' proposed depreciation reduction is only $373,000 for 2012. The CCA said that its examination of the depreciation rates in the attachment to the response to CAPP-AP-1(b) did not support depreciation rates as low as those calculated by ATCO Pipelines. The CCA recommended that ATCO Pipelines should be directed to show by excluded capital project and depreciation rate class each adjustment to support the appropriate depreciation expense reduction.[17] The UCA concurred with the CCA's recommended direction.[18]

25. ATCO Pipelines submitted that the attachment to AUC-AP-2 provided all of the information requested by the CCA and the underlying calculations that led to the reduction of

[14] Exhibit 4, compliance application, Table 3.1, $117,383,000 - $95,692,000.
[15] Exhibit 4, compliance application, Table 3.2, $152,887,000 - $82,159,000.
[16] It is noted that in CCA-AP-1, Table 2, ATCO Pipelines indicates 2012 capital reduction is $70,718,000.
[17] Exhibit 23, CCA argument, page 4.
[18] Exhibit 30, UCA reply argument, paragraph 10.

$371,000 in depreciation expense. Given this information, ATCO Pipelines considered the concern raised by the CCA to be unwarranted.[19]

Commission findings

26. The Commission has examined AUC-AP-2 and finds that it contains the depreciation related information requested by the CCA and therefore no further direction is required.

4.1.2 Capital cost allowance

27. ATCO Pipelines had increased the income taxes from the original application to the compliance application from $6,642,000 to $7,821,000. ATCO Pipelines proposed a capital cost allowance reduction to income tax of $5,386,000. ATCO Pipelines had estimated the weighted average capital cost allowance rate as 5.93 per cent in its 2012 final revenue requirement and 5.97 per cent in its 2012 compliance application.[20]

28. The CCA submitted that ATCO Pipelines is proposing a reduction of only $373,000 in depreciation expense while decreasing the capital cost allowance by $5,386,000. The CCA and UCA[21] both argued that ATCO Pipelines should be directed to provide better information to support ATCO Pipelines capital cost allowance reduction and relationship to denied capital projects.

29. ATCO Pipelines in its reply argument[22] reiterated its response to CCA-AP-1:

> There has been no change to the income tax methodology. The income tax methodology follows that outlined in the 2010-2012 Revenue Requirement Settlement. The resulting increase in income tax is a result of the changes in rate base due to Decision 2013-064 which consequently impacted the Capital Cost Allowance.

30. ATCO Pipelines also referred in its reply argument[23] to Clause 17 of the settlement which states:

> The revenue requirement will be calculated using the schedules included in Attachment 2.1, 2.2 and 2.3 of AP's Alberta System Integration Application filed on June 26, 2009, as revised and included as Attachments 2.1, 2.2 and 2.3 to this Settlement.

31. ATCO Pipelines argued that the resultant impact on income tax is a function of the calculations (Table 2 of CCA-AP-1) contained in the settlement schedules and as such, ATCO Pipelines argued that the CCA's concerns are unwarranted.

32. In a Round 2 IR,[24] the Commission requested ATCO Pipelines to provide the calculation for the capital cost allowance reduction of $5,386,000 in the forecasted revenue requirement of 2012 by each excluded capital project.

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[19] Exhibit 31, ATCO Pipelines reply argument, paragraph 58.
[20] Exhibit 22, CCA-AP-1, Tables 1 and 2.
[21] Exhibit 30, UCA reply argument, paragraph 8.
[22] Exhibit 31, ATCO Pipelines reply argument, paragraph 59.
[23] Exhibit 31, ATCO Pipelines reply argument, paragraph 60.
[24] Exhibit 34, AUC-AP-4.

Commission findings

33. The Commission has examined the response to AUC-AP-4 and finds that the information provided details the relationship of ATCO Pipelines' proposed capital cost allowance reduction of $5,386,000 to the denied capital projects which was then used in the income tax calculation and therefore, no further direction is necessary.

4.1.3 Taxes other than income

34. In its argument,[25] the CCA referred to ATCO Pipelines' response in CAPP-AP-4, where ATCO Pipelines had stated:

> Please refer to CAPP-AP-4(a-b) in regard to Property Taxes. The flow through of Franchise Fees (Rider A and Rider B) was based on actual charges (i.e. revenues) and the municipal franchise fee rate for customers for which franchise fees were applicable. The information requested cannot be provided as the Property Tax and Franchise Fee forecasts were not based on capital expenditure projects.

35. The CCA expressed its view that the settlement did not cover appropriate methodologies or values to determine future changes to the revenue requirement such as the 2012 final revenue requirement application. The CCA submitted that it is appropriate to make reductions to taxes other than property taxes to reflect capital project and other disallowances. The CCA noted that property tax and revenue requirement reductions can be calculated for franchise tax purposes and removed from the original taxes other than income. The CCA also noted that even though taxes other than income are a flow though item, they do affect necessary working capital. Therefore, the CCA recommended that ATCO Pipelines should be directed to update its taxes other than income forecast and update its necessary working capital amounts.[26]

36. In its reply argument, ATCO Pipelines referred to CCA-AP-2 and CAPP-AP-4(a-b), where it had indicated that it followed the terms of the settlement in its treatment of necessary working capital, property taxes and franchise fees. ATCO Pipelines also noted that under the settlement, property taxes have deferral account treatment and franchise fees are flow-through, which results in customers only having to pay actual costs. ATCO Pipelines argued that the CCA misunderstood the terms of the settlement and that its position should be rejected by the Commission.[27]

Commission findings

37. Section 6 of the settlement states:

> Taxes Other than Income Taxes
> (a) Franchise fees will be treated as "flow through".
> (b) The property tax forecast will be set at $12.3 million for 2010, $12.9 million for 2011 and $13.6 million for 2012 and will be treated as "flow through".

38. The Commission finds that ATCO Pipelines has adhered to the terms of the settlement and agrees with its response in CAPP-AP-4 that property taxes have deferral account treatment and franchise fees are flow through. No further direction is required.

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25 Exhibit 23, CCA argument, page 6.
26 Exhibit 23, CCA argument, page 6.
27 Exhibit 31, ATCO Pipelines reply argument, paragraph 62.

4.1.4 Allowance for funds used during construction

39. The CCA noted that ATCO Pipelines had forecast the AFUDC amount in Table 1 of CCA-AP-1 to be $1,250,000 for both the 2012 Final Revenue Requirement application and the compliance filing. The CCA submitted that ATCO Pipelines should be directed to update its AFUDC forecast to reflect the AUC's adjustments to rate base additions. The CCA also submitted that ATCO Pipelines should be directed to update its income tax forecast to reflect updated AFUDC amounts.[28]

40. The UCA agreed with the CCA that ATCO Pipelines' AFUDC forecast should be updated, which affects the income tax expense calculation. The UCA submitted that this should also be part of a second compliance filing.[29]

41. ATCO Pipelines argued that its treatment of the AFUDC in the 2012 Final Revenue Requirement application and in the compliance filing has no impact on the 2012 revenue requirement calculation. As such, any concerns raised by the interveners regarding AFUDC are without merit.[30]

42. In AUC-AP-5, the Commission enquired why no adjustment was made to AFUDC in the income tax schedule resulting from the Commission's denial of approximately $70,000,000 in capital expenditures in 2012 as directed in Decision 2013-064. In its response,[31] ATCO Pipelines quoted its response to AUC-AP-1 from Proceeding ID No.223,[32] where it had stated:

> The circumstances in this negotiation are quite different from normal GRA or negotiation processes. In response to comments received from interveners, AP proposed a revenue requirement process that would reduce the need for detailed information…
>
> AP simplified the forecast calculation of income taxes by specifically including only major income tax add-backs and deductions and combining the remainder as "Other". **Since equity return depreciation and CCA are the main drivers of the income tax calculation, the Settlement allows for changes in forecast capital expenditures through changes to equity return, depreciation and CCA…**(emphasis added by ATCO Pipelines)

43. ATCO Pipelines further added in the same response:

> In AP's view, the Settlement was clear as to which items in the income tax calculation were to be updated. Further clarification was provided in Table 2.2-16 of Attachment 2.2 and Table 2.3-16 of Attachment 2.3 which were a subset of the schedules provided in the Settlement showing how the revenue requirement was to be calculated. Note (a) in these Tables indicates that the amounts shown for AFUDC, Rainbow, Indirect Overhead and Other were fixed amounts for purposes of the income tax calculation. In its subsequent revenue requirement application for 2010, 2011 and 2012, AP has been consistent in not changing these values despite changes to the capital expenditures in each of those years.

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28 Exhibit 23, CCA argument, page 7.
29 Exhibit 30, UCA reply argument, paragraph 9.
30 Exhibit 31, ATCO Pipelines reply argument, paragraph 63.
31 Exhibit 33, AUC-AP-5.
32 Application No. 1605226, Proceeding ID No.223 leading to Decision 2010-228.

> No adjustment to AFUDC in the income tax schedule resulting from the Commission's denial of approximately $70,000,000 in capital expenditures in 2012 is required simply because that is what was agreed to in the Commission approved Settlement.
>
> AP notes that AFUDC should not have been deducted in Tables 2.2-16 of Attachment 2 and 2.3-16 of Attachment 3 of the 2010-2012 Revenue Requirement Settlement as line 01 of these tables, Common Equity Return, does not include AFUDC.

44. In its August 2, 2013, submission the CCA argued that the accounting treatment for AFUDC should be consistent from year to year. If AFUDC is to be booked on only a portion of assets constructed, of the approximately $70,000,000 of assets, then it should appear on the common equity return table and the tax table. It further added that ATCO Pipelines' accounting for AFUDC should be consistent between 2011 and 2012.[33]

45. In its August 13, 2013, submission[34] ATCO Pipelines argued that it had followed Clause 17 of the 2010-2012 Settlement which states:

> …The revenue requirements will be calculated using the schedules included in Attachments 2.1, 2.2 and 2.3 of AP's Alberta System Integration Application filed on June 26, 2009, as revised and included as Attachments 2.1, 2.2 and 2.3 to this Settlement.

46. ATCO Pipelines further submitted that, "AP reiterates that there has been no finding that the 2010-2012 Settlement, as approved, is invalid. There is no basis, therefore, to disturb the balance of benefits and burdens negotiated by the customers and AP, and approved by the Commission, as advocated by the CCA…"[35]

Commission findings

47. The Commission has reviewed Tables 2.2-16 of Attachment 2.2 and Table 2.3-16 of Attachment 2.3 from Proceeding ID No.223 and finds that the methodology applied in this application for the treatment of AFUDC and the subsequent calculation of income tax is consistent with the methodology approved in Decision 2010-228. In particular, the Commission has observed that Note (a)[36] in the tables referenced in the quote included in paragraph 43 above, indicates that the amounts shown for AFUDC were fixed amounts for purposes of the income tax calculation as per the schedules provided for the years 2010-2012 in Proceeding ID No. 223, which led to Decision 2010-228. No further adjustment to the 2012 revenue requirement is required.

4.1.5 Accounting policies

48. In its August 2, 2013, submission the CCA raised a concern with the manner in which ATCO Pipelines complied with the accounting policies established in the *Uniform Classification of Accounts Regulation*, AR 546/63. Specifically, the CCA submitted that ATCO Pipelines has made accounting adjustments for forecasted capital changes but no adjustments were made for Commission directed changes to capital. The CCA submitted that this does not comply with the regulation. The CCA submitted that no agreement between customers and a utility can undo or modify the requirements set out in the regulation. The CCA further added that it did not find any

[33] Exhibit 35, CCA supplemental submission, paragraph 12.
[34] Exhibit 37, ATCO Pipelines response to CCA supplemental submission, paragraph 2.
[35] Exhibit 37, ATCO Pipelines response to CCA supplemental submission, paragraph 4.
[36] Proceeding ID No. 223, Exhibit 61, Revenue Requirement Settlement application.

explicit agreement in the settlement that accounting for adjustments due to decisions of the AUC should be restricted in a compliance process or any other AUC proceeding. Furthermore, the only reference that ATCO Pipelines relied on to restrict the AUC compliance process is an ATCO Pipelines response to an information request response from Proceeding ID No. 223[37] referred to in paragraph 42 above.

49. The CCA also stated:

> AP appears to be seeking to vary its accounting policies depending if AP forecasts a change of rate base versus whether the AUC orders a change in rate base. The CCA submits that accounting policies must be consistent regardless of the reason for the change.
>
> The CCA submits that the materiality of the AUC ordered adjustments are such that AP should be ordered to comply with all the required changes in their schedules within this compliance filing.

50. In reply to CCA's comments, ATCO Pipelines submitted:[38]

> It is unfair and improper for CCA to now raise the issue of accounting policy changes in its Supplemental Submission (paragraphs 6, 8, 9 and 10) when that issue was not raised by CCA in either the 2012 Final Revenue Requirement proceeding or the Compliance Filing to Decision 2013-064 proceeding. The opportunity to comment on the last round of IRs is not, it is respectfully submitted, an opportunity to raise new issues which have not had the benefit of being tested, or reviewed in argument, by the hearing participants. The foregoing notwithstanding, AP advises that it is in full compliance with the accounting policies in Alberta Regulation 546/63 (Uniform Classification of Accounts for Natural Gas Utilities).

51. ATCO Pipelines also submitted that its compliance filing properly applies the AUC directions consistent with Clause 17 of the 2010-2012 settlement.

Commission findings

52. The Commission has not been persuaded by the CCA that ATCO Pipelines has not complied with the provisions of the *Uniform Classification of Accounts Regulation*, and notes that ATCO Pipelines advised the Commission in its reply submissions that it is in full compliance with the accounting policies provided for in the regulation. Accordingly, no further direction is required.

4.1.6 Direction 6 – Bonnie Glen project

Views of the parties

53. In its compliance application, ATCO Pipelines confirmed in its response to Direction 6 of Decision 2013-064 that the Norma replacement project was included in the forecast amount for CWIP, however the Bonnie Glen maximum operating pressure reduction project had not been included in the 2012 forecast for CWIP. ATCO Pipelines submitted that there was an error regarding the in-service date for the Bonnie Glen project, which is actually made up of two distinct phases. Phase I was completed in 2012 and is in service and therefore is not included in

[37] Proceeding ID No. 223, Exhibit 81, AUC-AP-1.
[38] Exhibit 37, ATCO Pipelines' response to CCA supplemental submission.

the CWIP forecast. Phase II of the project is scheduled for completion in Quarter 3 (Q3) 2013 as per response AUC-AP-2(f) filed in Proceeding ID No. 2041.[39]

54. The CCA took issue with ATCO Pipelines' proposal to split the project into two distinct phases. The CCA submitted that this position is different from the original GRA filing and was corrected by ATCO Pipelines in AUC-AP-2(f) in Proceeding ID No. 2041. The entire notice of the error was in the list of in-service dates, which was listed as follows:

> Bonnie Glen MOP Reduction August 2012 (Phase I) (actual)
> Q3 2013 (Phase II) (forecast)

55. The CCA submitted that ATCO Pipelines had not explained why the project was split into two phases. Further, ATCO Pipelines had not identified or provided any discussion as to how or why Phase I of the Bonnie Glen project was needed or used or useful and accordingly should be excluded from rate base for 2012. In making its recommendation, CCA referred to CCA-AP-4, where it specifically asked for "the earliest dated documentation in ATCO Pipelines' possession which split the Bonnie Glen project into two phases." ATCO Pipelines did not provide any engineering or other documentation to demonstrate the two phases of the project or explain how Phase I was needed.[40]

56. In its reply argument, ATCO Pipelines noted that a business case for the Bonnie Glen project was filed as part of ATCO Pipelines 2012 Final Revenue Requirement application, showing a total capital cost of $2,655,000. ATCO Pipelines submitted that its 2012 capital expenditures forecast in its 2012 Final Revenue Requirement application only showed a forecast amount of $1,330,000 for the project. While ATCO Pipelines' business case did not indicate that the project was being completed in two distinct phases, the lower capital expenditure forecast in 2012 compared to the total project capital cost implied that additional capital was to be spent in 2013. As referenced by the CCA, ATCO Pipelines corrected this in its response to AUC-AP-2(f) in Proceeding ID No. 2041. ATCO Pipelines also noted in CCA-AP-4, that CAPP had incorrectly associated the 2012 capital expenditure of $1,330,000 with Phase II of the Bonnie Glen project in its argument, which was then reflected in a similar manner in Decision 2013-064. ATCO Pipelines therefore, submitted that the Phase I Bonnie Glen project capital costs have been properly included in the 2012 capital expenditures reflected in ATCO Pipelines' compliance filing.[41]

Commission findings

57. The Commission has reviewed the original Bonnie Glen project business case and total cost of the project and ATCO Pipelines' clarification in AUC-AP-2(f)) from Proceeding ID No. 2041 and notes that Phase I of the Bonnie Glen project was placed in service in 2012. The Commission considers that Phase I of the Bonnie Glen project should be allowed in ATCO Pipelines' 2012 revenue requirement. Although ATCO Pipelines made an error in the business case in not identifying that the project had been divided into two phases, it was later rectified in AUC-AP-2(f), ATCO Pipelines only included $1,330,000 (Phase I portion) of the total capital cost of the project of $2,655,000 in its 2012 revenue requirement consistent with the corrected two phase nature of the project. The Commission is satisfied that ATCO Pipelines has

39 Exhibit 4, compliance application, page 6.
40 Exhibit 23, CCA argument, page 7.
41 Exhibit 31, ATCO Pipelines reply argument, paragraph 64.

addressed the issues raised with respect to the Bonnie Glen project and complied with Direction 6 from Decision 2013-064.

4.2 Direction 7

58. Direction 7 from Decision 2013-064 stated:

> 94. After reviewing the record of this proceeding, the Commission considers that there is insufficient evidence to determine whether or not the STAR IT [System for Transportation and Accounts Reporting Information Technology] system costs should be removed from rate base with any remaining net book value and related revenue requirement recovered over a five-year amortization period from customers, or recovered immediately in ATCO Pipelines' 2012 revenue requirement. No details on the project were provided as part of ATCO Pipelines' final revenue requirement application. ATCO Pipelines is therefore directed, in the compliance filing to this decision, to:
>
> - Provide the details and an explanation of why the STAR IT system is no longer used or required to be used to provide utility service, including the dates when the STAR IT system was no longer supported.
> - Provide a detailed explanation of why a five-year amortization approach proposed by ATCO Pipelines is the best alternative for recovering outstanding net book value and revenue requirement, rather than recovering the costs from customers in 2012.

59. In AUC-AP-1(b) in the compliance filing, ATCO Pipelines explained that:

> The reason that the STAR IT system is no longer required to provide utility service to customers is due to the implementation of commercial Integration with NGTL effective October 1, 2011. Under Integration, the functions provided by AP's STAR IT system, e.g. nominations, daily account balancing, and billing, are now provided by NGTL
> As noted by AP, the STAR IT system was required to be used transitionally until June 30, 2012 to allow for the processing of billing adjustments through the system. Therefore, since the outstanding NBV [net book value] of STAR is a direct result of Integration, it is a cost of Integration that should be recovered through the Integration deferral account.

Views of the parties

CAPP

60. CAPP submitted that although ATCO Pipelines had explained why the STAR IT system is no longer required to provide utility service, it did not explain why the remaining NBV should be recovered from customers. CAPP also argued that the recovery of the NBV of assets that are no longer required for utility service was not mentioned and contemplated, at least by CAPP, in the settlement, which in Article 3(b), states the following:

> O&M costs and savings resulting from Integration, as shown as separate line items under Base Utility Labour and Base Utility Supplies in Tables 2.1-6 and 2.3-13 and more fully described in AP's responses to CAPP-AP-17 (Revised), UCA-AP-3(a) (Revised) and CCAAP- 8(d), attached hereto as Attachment 1, will be treated as "flow through".
> (emphasis added)

61. In its argument, CAPP stated that only the IR responses referred to in the above quote address costs associated with Integration. It also added that CAPP-AP-17 (revised), includes a

table with a line item specifying operation and maintenance (O&M) *savings* related to the "STAR system" of $775,000 per year and that the remainder of the IR response made no further reference to costs or savings related to the STAR IT system.[42]

62. CAPP also clarified that it had changed its original position as expressed in Proceeding ID No. 2041 where CAPP was of the view that the STAR IT costs should be recovered in the 2012 revenue requirement. CAPP is now of the view that STAR IT costs should not be recovered from customers and that that the remaining NBV of the STAR IT system be removed from ATCO Pipelines' revenue requirement.[43] CAPP however added that, if the Commission decided that such costs should be recovered from customers, CAPP would recommend that any STAR IT costs deemed by the Commission to be recoverable from customers be recouped in the 2012 revenue requirement.[44]

UCA

63. The UCA submitted that ATCO Pipelines had not justified its recovery of the undepreciated $5.1 million cost of the STAR IT system and that the Commission should deny the inclusion of this cost in the Integration deferral account. The UCA submitted that the remaining NBV of the STAR IT system should not be recovered from customers because:[45]

> a) The Settlement, as approved by Decision 2012-228, excludes and does not permit treating the unrecovered NBV of stranded assets as a "cost" recoverable in the Integration deferral account.
>
> b) Even outside the Integration deferral account context, the STAR system is no longer used and useful for utility service and is a stranded asset as a result of business decisions made by AP, and in these circumstances the associated cost should be borne by AP's shareholders.

64. The UCA submitted that the settlement does not allow ATCO Pipelines to treat the unrecovered STAR IT NBV as a "cost," and that the attempt to do so is an inappropriate use of the integration deferral account. The integration deferral account was established to capture and act as a clearinghouse for "flow through" items pursuant to the settlement. The Commission described the parameters of the integration deferral account in Decision 2012-310[46] as follows:

> "Flow through" items are items that either: (i) have offsetting revenues and expenses (e.g. franchise fees); or (ii) have the difference between the actual amount and forecast amount placed in a deferral account for collection from or refund to customers at a later time (e.g. hearing costs, Integration costs/savings).

65. The UCA argued that paragraph 3(b) of the settlement provided O&M costs and savings from integration to be treated as "flow through." The settlement did not address the depreciation or amortization treatment of any capital costs affected by integration, and no other flow through items in the settlement included these costs. The UCA also added that Table 3 of Decision 2010-228 itemized forecast cost/savings and included integration costs such as one-

[42] Exhibit 24, CAPP argument, page 2.
[43] Exhibit 24, CAPP argument, page 2.
[44] Exhibit 24, CAPP argument, page 2.
[45] Exhibit 26, UCA argument, paragraph 13.
[46] Decision 2012-310, paragraph 53.

time land assignments and transfers, mapping, records management, and employee severances. The UCA further commented that footnotes to the table made references to two IR responses in Proceeding ID No. 223, CAPP-AP-17 and UCA-AP-3(a) that identify an annual O&M saving of $775,000 from the redundancy of the STAR IT system. Based upon this, the UCA concluded that it is inappropriate to treat the unrecovered NBV of the STAR IT system as an integration "cost" because ATCO Pipelines failed to identify it as such at the time of the application, even though ATCO Pipelines identified savings from forgoing the STAR IT O&M costs.[47]

66. The UCA also stated that ATCO Pipelines entered the integration agreement with NGTL knowing that the consequences would be a "stranded" STAR IT system and therefore it should bear the remaining costs of a system that is no longer used or useful. Customers had not agreed to bear the cost of these stranded assets.[48]

67. The UCA argued that the leading case applicable to the appropriate regulatory treatment for the disposition of assets by public utilities in Canada is the 2006 Supreme Court of Canada *Stores Block* decision.[49] The Supreme Court of Canada ruled that public utility shareholders, not customers, are solely entitled to both the risk and the reward associated with the disposition of rate base assets. The UCA submitted that the *Stores Block* decision, and subsequent applications of it have crystallized two principles:

- A utility owner is only entitled to earn a return on assets which are used and useful. Accordingly, when a utility asset is no longer used and useful it should immediately be removed from rate base.
- When utility assets are removed from utility service, because the utility shareholder bears the risk of a loss on the value of the asset, the shareholder is symmetrically entitled to any profit that may result.[50]

68. The UCA submitted that ATCO Pipelines chose to enter into the integration agreement with NGTL and applied to the Commission for its approval. The consequence was stranding the STAR IT system. ATCO Pipelines did not negotiate a settlement that included the costs of these stranded assets. Based on the above, the UCA submitted that the Commission should deny the recovery of ATCO Pipelines' STAR IT costs through the Integration deferral account.[51]

ATCO Pipelines

69. ATCO Pipelines submitted that the only matter at issue with regard to STAR IT costs relates to the establishment of the appropriate term of recovery for those costs, not whether those costs should, in effect, be recovered. ATCO Pipelines asserted that interveners are inappropriately using a compliance filing process to in effect attempt to review and vary Decision 2013-064 because Decision 2013-064 referred to insufficient evidence in the context of determining the proper recovery period for STAR IT costs. ATCO Pipelines submitted that the only issue the Commission should be deliberating on in the compliance filing is whether the prudently incurred STAR IT costs should be recovered over a five year period or recovered

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47 Exhibit 26, UCA argument, paragraphs 18 and 19.
48 Exhibit 26, UCA argument, paragraph 21.
49 *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4.
50 Exhibit 26.01, UCA evidence, page 6.
51 Exhibit 26, UCA argument, paragraph 33.

immediately and to the extent the Commission intends to address whether these costs should be recovered at all is a violation of natural justice.[52]

70. ATCO Pipelines explained that the Commission's approval of integration rendered STAR IT redundant because the NGTL systems ultimately replaced all required customer interface functions after the transition period.[53]

71. ATCO Pipelines asserted that the benefit of integration to customers and the public interest generally is self-evident given the Commission's approval of integration. In addition, Integration enjoyed virtually unanimous customer support.[54]

72. In response to the UCA's argument that the STAR IT costs are not recoverable under the integration deferral account, ATCO Pipelines submitted that in Proceeding ID No. 223, ATCO Pipelines provided forecasts of costs and savings that it anticipated would result from integration. ATCO Pipelines explained:

> They represented ATCO Pipelines' best estimates at the time, but were always recognized as being just that—estimates. They certainly were not presented as an exhaustive list or guarantee of what costs and savings might ultimately result from Integration. No one could reasonably have expected such an exhaustive list or guarantee, and certainly not at that stage, well in advance of the implementation of Integration. That was the whole reason for addressing such costs and savings through a deferral account.[55]

73. ATCO Pipelines further argued that there has been no finding that the settlement, as approved, is invalid. There is no basis, therefore, to disturb the balance of benefits and burdens negotiated by the customers and the utility and approved by the Commission. ATCO Pipelines, therefore, is entitled to have its compliance application approved.[56] ATCO Pipelines also submitted that to cherry pick costs and savings resulting from Integration is an unprincipled attempt to rewrite the basic "bargain" of integration.[57]

74. ATCO Pipelines observed that recovery of STAR IT capital costs from customers, as a cost of integration, does not mean that retiring the STAR IT system will not yield net benefits for customers. The annual savings attributed to retiring the STAR IT system were forecast at $775,000 while the remaining incurred, depreciated cost is about 6.5 times that—indicating that net savings will accrue from year seven onwards.[58]

75. In AUC-AP-1 a) ATCO Pipelines submitted:

> AP is indifferent to whether the outstanding NBV of STAR is collected by amortizing it over the remaining depreciation term or recovering it immediately in its 2012 revenue requirement.

52 Exhibit 31, ATCO Pipelines reply argument, paragraph 9.
53 Exhibit 31, ATCO Pipelines reply argument, paragraph 18.
54 Exhibit 31, ATCO Pipelines reply argument, paragraph 20.
55 Exhibit 31, ATCO Pipelines reply argument, paragraph 35.
56 Exhibit 31, ATCO Pipelines reply argument, paragraph 27.
57 Exhibit 31, ATCO Pipelines reply argument, paragraph 40.
58 Exhibit 31, ATCO Pipelines reply argument, paragraph 50.

Commission findings

76. The recovery of the STAR IT system as an integration cost along with the appropriate recovery term are both issues that are to be determined in this proceeding. Decision 2010-228 had defined the items that qualify for recovery through the integration deferral account as.[59]

> "Flow through" items are items that either: (i) have offsetting revenues and expenses (e.g. franchise fees); or (ii) have the difference between the actual amount and forecast amount placed in a deferral account for collection from or refund to customers at a later time (e.g. hearing costs, Integration costs/savings).

77. The Commission agrees with ATCO Pipelines that the STAR IT system became no longer used or required to be used in the provision of utility service because, and only because, the customer supported integration with NGTL rendered the STAR IT system redundant. Integration has provided benefits to customers, including $775,000 in annual O&M savings as a result of the redundancy of the STAR IT system. While the capital costs of the STAR IT system were not expressly stated as a cost to be recovered from customers in the settlement, recovering from customers the redundant STAR IT capital costs is a logical part of the balancing of the benefits and costs of the Integration in the circumstances. Accordingly, the NBV of the STAR IT system is eligible for recovery through the Integration deferral account

78. The Commission notes that ATCO Pipelines is indifferent to whether the outstanding NBV of STAR IT is collected by amortizing it over the remaining depreciation term or recovering it immediately in its 2012 revenue requirement.[60] CAPP expressed a preference for recovery in the 2012 revenue requirement. Given the timing of this decision and remaining depreciation term, the Commission considers it preferable to collect the remaining NBV of STAR IT by amortizing it over the remaining depreciation term which will spread out the resulting revenue requirement impact to customers.

4.3 Direction 8

79. Direction 8 from Decision 2013-064 related to the contribution in aid of construction (CIAC) forecast stated:

> 112. Given the Commission's determinations earlier in this decision that it will consider updates to ATCO Pipelines' forecast revenue requirement and capital expenditures, the Commission finds that the updating of CIAC should align with ATCO Pipelines' updated forecast capital expenditures to mitigate any reconciliation issues such as those raised by CAPP. ATCO Pipelines is therefore directed to update its CIAC forecast in the compliance filing and provide a detailed explanation of all relocation costs and associated CIAC.

80. In response to this direction, ATCO Pipelines filed Table 4 at page 8 of the compliance application which set out detailed estimates of the specified relocation capital costs and associated CIAC after taking into account the Commission's directions with respect to disallowed projects. These CIAC amounts were estimated to be $1,072,000 for 2012. No intervener took issue with ATCO Pipelines response to this direction.

[59] Decision 2010-228, page 10.
[60] Exhibit 19, AUC-AP-1 a).

Commission findings

81. The Commission is satisfied that ATCO Pipelines has properly aligned its 2012 forecast CIAC contributions with the updated 2012 capital expenditures as required by Direction 8 of Decision 2013-064.

4.4 Direction 9

82. Direction 9 from Decision 2013-064 stated:

> 115. Because the opening balance of 2012 property, plant, and equipment does not properly reflect actual results, it is not reflective of Clause 11 of the terms of the settlement. The Commission consequently directs ATCO Pipelines to refile its revenue requirement schedules for ATCO Pipelines North, ATCO Pipelines South and ATCO Pipelines Total in order to establish an accurate opening rate base for 2012 property, plant, and equipment.

Commission findings

83. In response to this direction ATCO Pipelines filed revised revenue requirement schedules. No intervener took issue with ATCO Pipelines response to this direction. The Commission is satisfied that ATCO Pipelines has revised its opening balance of 2012 property, plant, and equipment to properly reflect actuals.

4.5 Direction 10

84. Direction 10 from Decision 2013-064 stated:

> 129. ATCO Pipelines' $759,000 adjustment to its 2012 final revenue requirement and a further refund of $2,269,000 also reflect the Commission's findings from Decision 2012-277. In order to update ATCO Pipelines' 2012 revenue requirement, ATCO Pipelines is directed to refile in the compliance filing the items and associated amounts in the above table to reflect the net effect of the deferral accounts and Commission directions in Decision 2012-277, and to reflect the Commission's findings in this decision.

Commission findings

85. As set out in paragraph 18 of this Decision, ATCO Pipelines provided Table 2 in its compliance application in compliance with Direction 10. No intervener took issue with ATCO Pipelines' response to this direction. The Commission is satisfied that ATCO Pipelines has properly determined the refund attributable to the deferral accounts and directions from Decision 2012-277 and is in compliance with Direction 10 of Decision 2013-064.

4.6 Direction 11

86. Direction 11 from Decision 2013-064 stated:

> 136. The Commission has reviewed ATCO Pipelines' explanation of the master service contract and services agreement with ATCO Energy Solutions Ltd. with respect to MRP and is satisfied that the services and costs are adequately identified in the agreement and they are in accordance with the ATCO's Inter-affiliate Code of Conduct. ATCO Pipelines is directed to clearly identify all services and inter-affiliate transactions

> with respect to MRP in its next revenue requirement application to ensure that all services and costs/revenues comply with ATCO's Inter-affiliate Code of Conduct.

87. ATCO Pipelines submitted that it would address this direction in its next general rate application (GRA). In its 2013-2014 GRA, ATCO Pipelines has made submissions with respect to Direction 11.[61]

Commission findings

88. As ATCO Pipelines addressed Direction 11 in its 2013-2014 GRA, the Commission will consider the ATCO Pipelines submissions with respect to this direction in that proceeding. No finding is required in this decision.

4.7 Direction 12

89. Direction 12 from Decision 2013-064 stated:

> 138. The requirement to account for and report on a North/South basis was largely a result of the need to recognize differing costs and resultant rate designs, customer groups and rates between ATCO Pipelines North and ATCO Pipelines South. Under integration, the customer groups, rate designs, and interaction with customers is now the responsibility of NGTL. ATCO Pipelines' total revenue requirement is charged to NGTL on a monthly basis. There would not be a need to continue tracking costs and other financial information on a North/South basis and separately identifying them in the reporting required under Rule 005. Therefore, ATCO Pipelines' request to discontinue North/South reporting, commencing with the 2013 Annual Financial Reports to the Commission, is approved. However, for the purposes of ATCO Pipelines' compliance filing to this decision, ATCO Pipelines is directed to file schedules showing its costs on a North, South, and Total basis.

Commission findings

90. ATCO Pipelines has included total, north and south revenue requirement calculations as attachments 1, 2, and 3, respectively. The Commission has examined the attachments and is satisfied that ATCO Pipelines has complied with Direction 12.

[61] Proceeding ID No. 2322, Exhibit 62.01, UCA-AP-115(b).

5 Order

91. It is hereby ordered that:

(1) The ATCO Pipelines 2012 final revenue requirement of $189,654,000 is approved, subject to:

(i) the adjustments and refunds identified in Table 3 and paragraph 19 of this decision, resulting in a net 2012 revenue requirement of $180,064,000; and

(ii) the finalization of all outstanding 2012 placeholders as identified in Table 2 of this decision.

Dated on August 30, 2013.

The Alberta Utilities Commission

(original signed by)

Neil Jamieson
Panel Chair

(original signed by)

Tudor Beattie, QC
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
ATCO Pipelines S. Mah B. Jones
Canadian Association of Petroleum Producers (CAPP) R. Fairbairn K. Folkins
Consumers' Coalition of Alberta (CCA) J. A. Wachowich J. A. Jodoin
Encana Corporation R. Powell D. Dunlop
NOVA Gas Transmission Ltd. T. Bews
Office of the Utilities Consumer Advocate (UCA) R. B. Wallace M. D. Keen G. Garbutt K. Dannacker B. Shymanski

The Alberta Utilities Commission Commission Panel N. Jamieson, Panel Chair T. Beattie, QC, Commission Member Commission Staff B. McNulty (Commission counsel) N. Mahbub M. McJannet