Decision **2013-430**

AUC
Alberta Utilities Commission

ATCO Pipelines

2013-2014 General Rate Application

December 4, 2013

The Alberta Utilities Commission
Decision 2013-430: ATCO Pipelines
2013-2014 General Rate Application
Application No. 1609158
Proceeding ID No. 2322

December 4, 2013

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1 Introduction

1. ATCO Pipelines (AP), a division of ATCO Gas and Pipelines Ltd., filed an application with the Alberta Utilities Commission (AUC or Commission) on December 20, 2012, requesting approval for its 2013 and 2014 revenue requirement and settlement of regulatory deferral accounts (the application).

2. On December 24, 2012, the Commission issued a notice of application requesting any person or group with concerns or objections regarding the application, or who wished to support the application, to file a statement of intent to participate (SIP) by January 9, 2013.

3. The Commission received SIPs from the following parties:

- TransAlta Corporation
- Encana Corporation
- Canadian Association of Petroleum Producers (CAPP)
- The Office of the Utilities Consumer Advocate (UCA)
- NOVA Gas Transmission Ltd. (NGTL)
- Consumers' Coalition of Alberta (CCA)

4. In its SIP, the UCA sought to have consideration of ATCO Pipelines' proposed return on equity (ROE) and capital structure filed in the application moved to the Commission's 2013 Generic Cost of Capital (GCOC) proceeding (Proceeding ID No. 2191) as a more efficient means of dealing with these issues, instead of addressing them in two separate proceedings.

5. In a letter dated January 17, 2013, the Commission requested interested parties to file submissions with respect to the UCA's motion by January 21, 2013, with response to submissions from the UCA due by January 24, 2013.

6. The Commission received submissions from the CCA, CAPP, and ATCO Pipelines. The CCA supported the UCA's motion and recommended that ATCO Pipelines be required to file its general rate application (GRA) again, reflecting the last common equity ratio approved by the AUC. CAPP indicated it did not oppose the inclusion of capital structure in ATCO Pipelines 2013-2014 GRA, but was prepared to address the issue in either proceeding.

7. ATCO Pipelines submitted that it preferred to deal with ATCO Pipelines' capital structure in this proceeding because:

> (i) dealing with ATCO Pipelines' capital structure in the ATCO Pipelines' 2013-2014 GRA is efficient because this proceeding will already be focused on ATCO

Pipelines' specific circumstances, which circumstances are fundamental to a consideration of ATCO Pipelines' capital structure;

(ii) waiting for the 2013 GCOC Proceeding to address AP's capital structure is inefficient because it will unnecessarily broaden that proceeding by including significant evidence on ATCO Pipelines' risk in a post integration ("Integration") world with NOVA Gas Transmission Ltd. (NGTL) which has no material bearing on other utilities involved in that proceeding; and

(iii) dealing with ATCO Pipelines' capital structure in the ATCO Pipelines' 2013-2014 GRA provides greater toll certainty by gaining clarity on ATCO Pipelines' capital structure as soon as possible.

8. In a letter dated January 29, 2013, the Commission approved the UCA's motion to have ATCO Pipelines' ROE and capital structure considered in the 2013 GCOC proceeding. ATCO Pipelines was directed to refile its application, with its capital structure and ROE revised as placeholders, consistent with ATCO Pipelines' approved capital structure and ROE from Decision 2011-474.[1]

9. On February 11, 2013, ATCO Pipelines refiled its application with placeholders for the ROE and common equity ratio of 8.75 per cent and 38 per cent respectively, consistent with Decision 2011-474.The related evidence from K. McShane and B. Henning was excluded from the record of this proceeding .

10. A summary of the refiled application is outlined below:[2]

Table 1. ATCO Pipelines refiled revenue requirement summary

	2013	2014
Rate base – mid-year, $million	881.1	1018.8
Capital additions included in rate base, $million	155.7	177.3
Return on rate base, %	6.77	6.70
Long-term debt rate, (embedded cost) %	5.61	5.50
Return on common equity, %	8.75	8.75
Debt ratio, %	57.9	58.4
Common equity ratio, %	38	38
Return on rate base, $million	59.6	68.3
O&M expenses, $million	61.2	65.2
Net depreciation expense, $million	43.8	48.0
Utility revenue requirement, $million	**182.6**	**196.0**
Deferral account settlement refund, $million	**3.7**	**-**
*Adjustment for flow-through tax to follow		

11. With consideration of capital structure and ROE having been moved to the 2013 GCOC proceeding, ATCO Pipelines requested that an additional placeholder be established for the impact of its proposed normalized – deferred taxes on the 2014 test year revenue requirement.

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

[2] Exhibit 34.03, ATCO Pipelines 2013-2014 GRA, Table 1.1-1, PDF page 12.

12. In a letter dated February 15, 2013, the Commission requested that parties file submissions on two matters:

1. ATCO Pipelines' suggested approach for a placeholder for its normalized deferred taxes proposal.
2. To advise whether the parties had objections to a written hearing instead of an oral hearing.

13. On February 21, 2013, the Commission received submissions from ATCO Pipelines, the UCA, the CCA and CAPP.

14. In a letter dated February 25, 2013, the Commission issued its ruling on these matters. The Commission found that ATCO Pipelines' proposal for the adoption of the normalization – deferred taxes method for determining utility income taxes should be addressed after the Commission has reached a finding on the 2013 Generic Cost of Capital (GCOC) which will include consideration of a utility's business risk, a key underlying driver of ATCO Pipelines' proposed change in tax treatment. The Commission denied ATCO Pipelines' placeholder for the matter of normalization – deferred taxes method for the 2014 test year and directed ATCO Pipelines to refile its schedules based on the existing flow-through tax treatment.

15. ATCO Pipelines did not object to a written process. CAPP, the CCA and the UCA were all supportive of an oral hearing on ATCO Pipelines' 2013-2014 revenue requirement. ATCO Pipelines also advised the Commission that it anticipated filing additional evidence supporting its labour cost increase and variable pay program forecasts.

16. In a letter dated March 5, 2013, the Commission indicated that given the additional evidence filed by ATCO Pipelines regarding its labour cost increases and variable pay program forecast, the UCA's February 15, 2013 request for an extension to March 14, 2013 for the filing of information requests to ATCO Pipelines was reasonable.

17. In a letter dated March 5, 2013, ATCO Pipelines requested that the Commission clarify that for the 2014 test year, a tax "placeholder" will be in effect to allow for any change to tax treatment determined in a future process to be effective starting January 1, 2014. ATCO Pipelines clarified that income taxes had been calculated in this application using the Commission-approved flow-through method (citing Section 4.5.1 of the application). ATCO Pipelines only sought to have a placeholder established for the 2014 test year to accommodate a possible change to the proposed tax treatment once the issue has been determined by the Commission. ATCO Pipelines explained that the placeholder would only be there to preserve the ability to apply any change from a future proceeding to start January 1, 2014. ATCO Pipelines submitted that not establishing a placeholder will prejudice it should the future consideration of the tax issue determine that the proposed change in tax treatment for 2014 is warranted.

18. In a letter dated March 7, 2013, the Commission reviewed its February 25, 2013 ruling, considering ATCO Pipelines' submissions, and confirmed its February 25, 2013 ruling.

19. In a letter dated April 2, 2013, the Commission proposed two tentative times for an oral hearing for Proceeding ID No. 2322: June 17, 2013 to June 21, 2013 or July 29, 2013 to August 2, 2013. Interested parties were requested to file submissions with the Commission by April 8, 2013, indicating their preference, or to propose an alternative time.

20. In a letter dated April 11, 2013, the Commission advised that a hearing scheduled for July 29, 2013 to August 2, 2013 was preferred by the majority of hearing participants.

21. A motion dated April 29, 2013, from the UCA alleged that two information responses by ATCO Pipelines had not been responded to in whole or in part. The UCA requested that the Commission direct ATCO Pipelines to provide full and complete responses to the information requests identified in its motion.

22. On May 6, 2013, ATCO Pipelines applied to the Alberta Utilities Commission (the Commission or the AUC) for review and variance (the review application) of the Commission's March 7, 2013 ruling denying ATCO Pipelines' request for a normalization – deferred tax placeholder in Proceeding ID No. 2322, ATCO Pipelines 2013-2014 General Rate Application. In a letter of disposition dated July 18, 2013, the Commission found that the review applicant has not demonstrated a substantial doubt as to the correctness of the March 7, 2013 ruling and ATCO Pipelines' May 6, 2013 application for review and variance of that ruling is denied.

23. Both ATCO Pipelines and the UCA provided their response to the motion and reply submissions respectively.

24. In a letter dated May 16, 2013, after considering submissions from the parties on the issue, the Commission provided its ruling and found that more complete responses were required by ATCO Pipelines with respect to UCA-AP-81(a) to (d) and UCA-AP-112(c) and revised the hearing process schedule. On May 23, 2013, ATCO Pipelines filed further responses respecting the identified UCA information requests.

25. In a letter dated May 24, 2013, the UCA alleged that two aspects of ATCO Pipelines' compliance with the Commission's directions concerning UCA-AP-81(d) or UCA-AP-81(c) were inadequate and requested that the Commission direct ATCO Pipelines to fully comply.

26. In a letter dated May 29, 2013 ATCO Pipelines responded to this further request by the UCA.

27. On May 31, 2013, after considering the submissions of the UCA and ATCO Pipelines, the Commission found that ATCO Pipelines had not complied with the Commission's directions in its May 16, 2013 ruling and directed it to provide further information by June 4, 2013.

28. In a letter dated June 18, 2013, ATCO Pipelines noted that a portion of the UCA's evidence addressed amounts included in ATCO Pipelines' applied-for 2013 and 2014 revenue requirement for corporate signature rights ($750,000 for each of 2013 and 2014) and corporate donations and sponsorships ($418,000 for 2013 and $450,000 for 2014). ATCO Pipelines sought confirmation that costs related to corporate signature rights, donations and sponsorships are included in the application on a *placeholder* basis and that the *merits* of including these costs in ATCO Pipelines' revenue requirement be determined outside of the present proceeding. ATCO Pipelines explained that corporate signature rights are common to the entire ATCO family of regulated utilities and the issues respecting corporate donations and sponsorships are issues common to all regulated utilities in Alberta. ATCO Pipelines submitted that the outcome of the

Pension Common Matters appeal[3] will likely provide guidance applicable to all Alberta utilities, including the ATCO utilities and in this case, ATCO Pipelines.

29. In a letter dated June 18, 2013, the Commission proposed dealing with ATCO Pipelines' 2013-2014 revenue requirement in a written process. Interested parties were provided an opportunity to file submissions with any objections to a written process by June 21, 2013.

30. In a letter dated June 25, 2013, the UCA responded to ATCO Pipelines' request for this placeholder and argued that the confirmation sought should be denied, and instead the issue of these costs and proposed placeholders be addressed in rebuttal evidence, argument, and reply argument in this proceeding.

31. In a letter dated June 28, 2013, after considering the parties' submissions, the Commission found that ATCO Pipelines' request for placeholders for corporate signature rights, donations and sponsorships costs should be determined in this proceeding. The Commission also established the remainder of the process schedule based on submissions received from ATCO Pipelines, the CCA, and the UCA, all at that time in support of a written process.

Process step	Due date
Rebuttal evidence	July 16, 2013
Information requests to ATCO Pipelines and the UCA	July 23, 2013
Information responses from ATCO Pipelines and the UCA	July 30, 2013
Argument	August 20, 2013
Reply argument	September 5, 2013

32. The Commission considers that the record for this proceeding closed on September 5, 2013.

33. 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

34. In Decision 2010-228,[4] the Commission approved a negotiated settlement agreement[5] (settlement) between ATCO Pipelines and its customers that established a methodology to calculate the revenue requirement for each of the 2010, 2011 and 2012 test years. ATCO Pipelines' initial forecast revenue requirement of $211,782,000 for 2010, $207,482,000 for 2011 and $215,182,000 for 2012 was approved subject to subsequent adjustments in accordance with

[3] *Atco Gas and Pipelines Ltd. v Alberta (Utilities Commission)* 2013 ABCA 310, application for leave to appeal to the Supreme Court of Canada pending.

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

[5] Ibid., Appendix 2.

the terms of the settlement.[6] The settlement included a provision that, for each test year, ATCO Pipelines is to file interim revenue requirement and final revenue requirement applications with the AUC.[7] The settlement includes all aspects of ATCO Pipelines' 2010-2012 revenue requirement, except for issues addressed in the following proceedings:

- Competitive Pipeline Review[8] [9]
- Utility Asset Disposition Rate Review[10]
- Disposition issues related to certain Salt Cavern assets[11]
- ATCO Utilities 2003-2007 Benchmarking and I-Tek Placeholders True Up application[12]
- ATCO Utilities 2008-2009 Evergreen application[13]
- ATCO Utilities 2010 Evergreen application[14]
- ATCO Utilities Pension Common Matters applications (Application No. 1605254,[15] and related compliance filing,[16] and Application No. 1606850[17] which was filed as part of a direction from the original pension common matters application)[18]

35. Decision 2010-228 also approved in principle the integration of regulated gas transmission services in Alberta involving the ATCO Pipelines and NGTL systems as being in the public interest. Decision 2010-228 also approved in principle the proposed asset swap between ATCO Pipelines and NGTL as part of integration.[19] The transition of ATCO Pipelines contracts to NGTL Alberta System contracts, effective on the implementation of integration, and the approval of a swap of certain assets between ATCO Pipelines and NGTL were to be determined in a separate proceeding.

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6 Ibid., page 3, paragraph 11.

7 Decision 2010-228, page 14, paragraph 37 and Appendix 2, paragraph 17.

8 Application No. 1466609.

9 In its letter dated October 25, 2011, the Commission closed Application No. 1466609 as competitive issues between ATCO Pipelines and NGTL were resolved by integration.

10 Application No. 1566373, Proceeding ID No. 20. Decision 2013-417: Utility Asset Disposition, Application No. 1566373 Proceeding ID No. 20, November 26, 2013.

11 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.

12 Decision 2010-102: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.) 2003-2007 Benchmarking and ATCO I-Tek Placeholders True-Up, Application No. 1562012, Proceeding ID. 32, March 8, 2010.

13 Decision 2010-228: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.) 2008-2009 Evergreen Application, Application No. 1577426, Proceeding ID No. 77, May 26, 2011.

14 Application No. 1605338 or Proceeding ID No. 240.

15 Decision 2010-189: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.) Pension Common Matters Application No.1605254, Proceeding ID. 226, April 30, 2010.

16 Decision 2010-553: ATCO Utilities Compliance Filing Pursuant to Decision 2010-189: ATCO Utilities Pension Common Matters Application No. 1606289, Proceeding ID. 693, December 1, 2010.

17 Decision 2011-391: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.) 2011 Pension Common Matters, Application No.1606850, Proceeding ID No. 999, September 27, 2011.

18 Decision 2010-189: ATCO Utilities Pension Common Matters, Application No.1605254, Proceeding ID. 226, April 30, 2010.

19 Decision 2010-228, page 46, paragraph 167.

36. In Decision 2010-475,[20] the Commission approved ATCO Pipelines' 2010 final revenue requirement of $197,069,000, subject to the reconciliation of deferral accounts and the outstanding matters and placeholders.

37. Contract transitioning was approved in Decision 2011-160.[21] Integration with NGTL went into effect on October 1, 2011. As of the effective date, ATCO Pipelines no longer invoices customers directly, but invoices NGTL monthly based on ATCO Pipelines' approved revenue requirement. The initial monthly charge to NGTL will be calculated as ATCO Pipelines' approved 2012 revenue requirement for the full year, less ATCO Pipelines' 2012 forecast utility revenue for the period commencing January 1, 2012, until the effective date of integration based on the approved billing determinants and the approved rates, with the net difference divided evenly over the remaining months in 2012. As noted in Clause 8 of the settlement, ATCO Pipelines' revenues in 2012 will be treated as a flow-through by NGTL.

38. On December 20, 2011, the Commission issued Decision 2011-494[22] that approved ATCO Pipelines' 2011 final revenue requirement of $194,840,000 and associated rates, subject to the remaining placeholders identified in Decision 2010-228 and adjustments to forecast capital expenditures reflected as a credit to 2012 rates.

39. On January 17, 2012, ATCO Pipelines filed its 2012 interim revenue requirement application in accordance with the terms of its settlement.[23] ATCO Pipelines requested approval of its 2012 interim revenue requirement of $193,182,000 and its forecast 2012 capital expenditures of $192,377,000. ATCO Pipelines' forecast capital expenditures included $92 million for the reconfiguration of existing high-pressure natural gas pipeline systems within the cities of Edmonton and Calgary by constructing new, high-pressure natural gas pipeline networks in the transportation and utilities corridors for both cities (UPR). ATCO Pipelines submitted that UPR is planned to be phased-in over a five-year period starting with the following lead projects: (i) northwest Edmonton connector, (ii) southeast Calgary connector and (iii) east Calgary connector.

40. In Decision 2012-170,[24] in respect of ATCO Pipelines' 2012 interim revenue requirement, the Commission found that ATCO Pipelines failed to provide sufficient evidence to support the reasonableness and justification for the UPR. The Commission directed ATCO Pipelines to remove all UPR related costs from its 2012 applied-for interim revenue requirement. The Commission also determined that it was necessary to evaluate the full scope of the UPR rather than individually assess the merits of each of the 12 projects comprising the initiative to ensure the safe, economic, orderly and efficient development of the high-pressure pipeline networks in Edmonton and Calgary. ATCO Pipelines' non-UPR related capital expenditures forecast were approved on an interim basis.

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[20] Decision 2010-475: ATCO Pipelines 2010 Final Revenue Requirement, Final Rates Filing and Deferral Accounts Disposition , Application Nos. 1606306 and 1606326, Proceeding ID. 706, October 1, 2010

[21] As referenced in Decision 2011-160: ATCO Pipelines, Contract Transition, Application No. 1606374, Proceeding ID No. 732, April 20, 2011.

[22] 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.

[23] Decision 2010-228, Appendix 2.

[24] Decision 2012-170: ATCO Pipelines 2012 Interim Revenue Requirement, Application No. 1608058, Proceeding ID No. 1666, June 20, 2012.

41. In accordance with its direction in Decision 2012-170, and pursuant to sections 22 and 24 of the *Gas Utilities Act*, RSA 2000, c. G-5, subsections 4(a) and (b) of the *Pipeline Act*, RSA 2000, c. P-15 and Section 8(2) of the *Alberta Utilities Commission Act*, SA 2007, c. A-37-2, the Commission established Proceeding ID No. 1995 to address the need for the multi-phase and multi-year UPR project.

42. In Decision 2012-233,[25] the Commission determined that it was necessary to consider both the need to upgrade or relocate the Edmonton and Calgary transmission pipelines and potential alternatives to determine whether the UPR is in the public interest. Pending a decision in Proceeding ID No. 1995, the Commission suspended its consideration of ATCO Pipelines' application to construct and operate the proposed southeast Calgary connector pipeline.[26] All 12 components of the UPR were included in a comprehensive assessment of the UPR, including the northwest Edmonton connector (which has been in service since January 2012),[27] southeast Calgary connector, and east Calgary connector.

43. The Commission directed, in Decision 2012-277, that ATCO Pipelines refund to customers all amounts collected through rates associated with the surplus Salt Cavern assets commencing July 1, 2009, the date on which the surplus assets were no longer used or required to be used to provide utility service, as determined by the Commission in Decision 2012-068.[28]

44. On November 22, 2012, the Commission issued Decision 2012-310[29] that approved ATCO Pipelines' asset transfer to NGTL and related dispositions as filed pursuant to Section 26(2)(d) of the *Gas Utilities Act*.

45. On February 28, 2013, the Commission released Decision 2013-064[30] with respect to ATCO Pipelines' 2012 Final Revenue Requirement Application and directed ATCO Pipelines to file a compliance filing based on the Commission's findings. In Decision 2013-064, the Commission approved:

- 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
- refund of the disposition of the surplus Salt Cavern assets, consistent with Decision 2012-277
- the discontinuance of ATCO Pipelines North/South reporting effective 2013

25 Decision 2012-233: ATCO Pipelines Urban Pipeline Initiative – Application Scope, Requirements and Process Application No. 1608617, Proceeding ID No. 1995, September 4, 2012, paragraphs 26 to 36.
26 Application No. 1608219, Proceeding ID No. 1755.
27 Exhibit 24.01, UCA-AP-12(a).
28 Decision 2012-068: ATCO Pipelines, ATCO Gas and Pipelines Ltd., CU Inc., Canadian Utilities Limited, Disposition of Surplus Salt Cavern Assets in the Fort Saskatchewan Area, Application No. 1607245, Proceeding ID No. 1196, March 16, 2012.
29 Decision 2012-310: ATCO Gas and Pipelines Ltd. Asset Swap Application, Application No. 1608166, Proceeding ID No. 1723, November 22, 2012.
30 Decision 2013-064: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd. 2012 Final Revenue Requirement Application, Application No. 1608689,Proceeding ID No. 2041, February 28, 2013.

- ATCO Pipelines' compliance with the Commission's directions in Decision 2012-110;[31] but denied several capital projects included in ATCO Pipelines' 2012 forecast capital expenditures, including capital projects that are subject to further review of the need and justification for the UPR in Proceeding ID No. 1995.
- ATCO Pipelines' proposal to adjust its 2012 revenue requirement and apply a refund with respect to the disposition of the surplus Salt Cavern assets was consistent with Decision 2012-77
- ATCO Pipelines proposal to refund $7,321,000 associated with the clearing of the deferral account balances

The Commission also identified several non-UPR capital projects and directed AP to remove specific projects that were not adequately supported and update its capital expenditures forecast in accordance with the evidence.

46. On August 30, 2013, the Commission issued Decision 2013-326[32] which approved ATCO Pipelines' 2012 final revenue requirement of $189,654,000 subject to the refunds associated with the clearing of deferral accounts balances[33] and a further refund with respect to the Salt Cavern assets, which reflect the Commission's findings from Decision 2012-277.[34] This resulted in a net 2012 revenue requirement of $180,064,000 and the finalization of all outstanding 2012 placeholders.

3 Issues

47. Interveners raised concerns with respect to ATCO Pipelines' capital expenditures forecast, depreciation, variable pay program, donations and sponsorships, corporate branding, affiliate costs, debt costs, and deferral account/placeholder matters.

4 Rate base

4.1 2013 opening balance – property, plant, and equipment

48. In the AUC-AP-4(a) attachment, ATCO Pipelines provided financial schedules that compared its 2012 estimate to its 2012 actual results. The Commission is satisfied with ATCO Pipelines' explanation of the variance between its 2012 estimated and actual results for property, plant and equipment. As a result, ATCO Pipelines is directed to adjust its opening 2013 property, plant, and equipment balance to be consistent with its 2012 actual of $1,486,288,000.

4.2 Accounting treatment of major overhauls

49. ATCO Pipelines indicated that it adopted the International Financial Reporting Standards (IFRS), commencing January 1, 2011, for purposes of preparing its external financial statements.

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31 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.

32 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.

33 Decision 2013-064, paragraph 129.

34 Decision 2012-277, Appendix 3.

IFRS requires that the cost of expected major overhauls be estimated and separately componentized upon initial recognition of a capital asset. This portion of the capital asset's cost is then depreciated over a different period of time than the rest of the capital asset's cost. Prior to the introduction of the AUC's Rule 026: *Rule Regarding Regulatory Account Procedures Pertaining to the Implementation of the International Financial Reporting Standards* (AUC Rule 026), such treatment was not required for regulatory purposes. However, Section 6(2)(j)(ii) of the AUC's Rule 026 requires that, for regulatory purposes, utilities adhere to the IFRS requirements regarding the depreciation treatment of major overhauls. Implementation of AUC Rule 026 impacts the resulting regulatory depreciation expense.

50. ATCO Pipelines stated that in accordance with AUC Rule 026, it identified the financial differences for 2011 and 2012 that arose in this area as a result of the adoption of the IFRS requirements, and requested approval for the recovery of this difference. The resulting estimated balance at the end of 2012 in the major overhauls deferral account is $1.38 million. ATCO Pipelines included this amount in its overall deferral account balance for 2012, the settlement of which it requested as part of the application.

51. ATCO Pipelines indicated that for the years 2013 and 2014, there would be no need for such a deferral account because, for regulatory purposes, it was requesting separate depreciation rates for compressor overhauls and compressor turbo charger modules, and these separate depreciation rates are the same as those being used for the preparation of its external financial statements. Consequently, there will be no differences between the regulatory depreciation rates and the IFRS depreciation rates for these major overhaul accounts for the years after 2012.

4.3 Accounting treatment of pipeline inspection costs

52. ATCO Pipelines stated that it has componentized pipeline inspection costs, in accordance with IFRS, commencing January 1, 2011. It requested confirmation from the Commission that this practice be permitted for regulatory purposes. This request was made in accordance with AUC Rule 026. ATCO Pipelines indicated that there was a resulting impact on depreciation expense under IFRS for the years 2011 and 2012, which resulted in depreciation expense for pipeline inspection for 2011 and 2012, under IFRS, being greater than the depreciation expense for regulatory purposes.

53. ATCO Pipelines identified the financial differences for 2011 and 2012 that arose in this area as a result of the adoption of the IFRS requirements, and requested approval for the recovery of this difference. The estimated balance at the end of 2012 in the pipeline inspections costs deferral account is $0.186 million. ATCO Pipelines included this amount in its overall deferral account balance for 2012, the settlement of which it requested as part of the application.

Discussion of the issues

54. The CCA referred to an ongoing initiative at the International Accounting Standards Board (IASB), the body that oversees the IFRS, which may change the requirements of the IFRS for rate regulated utilities, particularly respecting rate regulated deferral accounts. The CCA stated that the IASB has issued an exposure draft on this subject, and comments on the exposure draft were due on September 4, 2013. The CCA submitted that the Commission should take judicial notice of this ongoing initiative, and added that the Commission may want to amend AUC Rule 026 to reflect that the elimination of deferral accounts may be no longer required

under the IFRS. The CCA stated that if deferral accounts are subsequently permitted under the IFRS, there may be no need to eliminate the deferral account mechanism for major overhauls.

55. The CCA indicated that there is no reason to collect the balance in the major overhauls deferral account in one test year, and submitted that the balance should be collected over five years. The CCA stated that given the size of the balance in the pipeline inspections costs deferral account, it did not object to its collection over 2013 and 2014.

56. ATCO Pipelines submitted there is currently no standard in the IFRS that specifically addresses the accounting for rate-regulated activities, and this is clearly stated in the exposure draft to which the CCA referred. It added that because ATCO Pipelines has already adopted IFRS, it is excluded from the scope of the exposure draft regarding an interim standard, because the proposed interim standard is only permitted to be applied by an entity in its first financial statements prepared in accordance with IFRS.

57. ATCO Pipelines stated that it placed the depreciation impact associated with the major overhauls and the pipeline inspections costs in a deferral account, in accordance with AUC Rule 026. It added that it has not eliminated the deferral account in its utility financial statements.

Commission findings

58. Section 6(2)(j)(ii) of AUC Rule 026 requires a utility to identify any financial difference that arises as a result of the adoption of the IFRS requirements for the componentization of major overhauls, and to propose in its first IFRS-compliant GRA a method to settle the difference.

59. The term "first IFRS-compliant GRA/GTA" is defined in Section 1(c) of AUC Rule 026 as follows:

> first IFRS-compliant GRA/GTA" means the first general rate application/general tariff application filed by a utility which includes the utility's IFRS adoption date in the forecast test period.

60. The ATCO Pipelines 2010-2012 GRA was not IFRS-compliant and ATCO Pipelines did not deal with the requirements of Section 6(2)(j)(ii) of AUC Rule 026. ATCO Pipelines indicated in response to information request AUC-AP-6(a),[35] that this 2013-2014 application is its first IFRS-compliant GRA. ATCO Pipelines' actual IFRS adoption date of 2011 is not included in the forecast 2013-2014 test period of this current application.

61. The financial differences that arose as a result of ATCO Pipelines' adoption of IFRS may only be accounted for prospectively, starting in 2013. ATCO Pipelines has included financial differences for the years 2011 and 2012 in this application. The Commission finds that these financial differences are not eligible for collection in this application. This applies to both the major overhauls and the pipeline inspection costs.

62. AUC Rule 026 permitted these financial differences to be reported and settled for 2011 and 2012 on a prospective basis and not a retroactive basis. The definition of the "first IFRS-compliant GRA/GTA" as quoted above confirms this intent. By including the IFRS adoption date in the forecast test period, it was intended that any financial differences be determined on a

[35] Exhibit 61.01.

forecast basis. ATCO Pipelines has included financial differences for periods that are prior to the current test period, and this goes against the intention of AUC Rule 026.

63. The regulatory revenue requirement for the years 2011 and 2012 has already been determined through a separate settlement proceeding. No deferral accounts for major overhauls and pipeline inspection costs were established in that proceeding, as acknowledged by ATCO Pipelines in response to information request AUC-AP-006.[36] If the Commission permitted the establishment of deferral accounts for items relating to 2011 and 2012, after the revenue requirement for these years has already been established, it would constitute retroactive rate making.

64. In addition, no regulatory revenue requirement harm was incurred by ATCO Pipelines in 2011 and 2012 because of the differences between the IFRS depreciation rates for major overhauls and pipeline inspection costs, and the regulatory depreciation rates for these items. The only difference was that, everything else being equal, the net earnings in 2011 and 2012 reported in the external financial statements prepared under IFRS were lower than the regulatory net earnings. The Commission is only concerned with the regulatory net earnings.

65. ATCO Pipelines has requested that the financial differences for 2013 and 2014 with respect to these items be included in the revenue requirement for these years, by requesting updated regulatory depreciation rates for these items. The Commission has addressed these requests in Section 8 of this decision.

66. For the reasons outlined above, the request by ATCO Pipelines to recover $1.38 million for depreciation expense differences in 2011 and 2012 related to major overhauls is denied; and the request to recover $0.186 million for depreciation expense differences in 2011 and 2012 related to pipeline inspection costs is also denied. The Commission directs ATCO Pipelines, in its compliance filing, to update any revenue requirement items for 2013 and 2014 that are impacted by these denials, and to include detailed calculations that substantiate the claimed impacts and the updated revenue requirements.

67. With respect to the CCA's proposal that the Commission amend AUC Rule 026, the Commission is not prepared to do so at this time because the IASB's initiative regarding rate regulated activities is still in progress. There is no certainty that this initiative will result in rate regulated utilities being permitted to include deferral accounts in their external financial statements. The Commission will review the final results of the IASB's initiative, including any subsequent changes to IFRS, and determine at that time whether any amendments to AUC Rule 026 are necessary.

68. Details of the componentization of ATCO Pipelines pipeline inspection and compressor overhaul costs are discussed further in Section 8.1 of this decision.

4.4 Capitalization policies

69. In Section 5.2, Attachment 2 of the application, ATCO Pipelines included a copy of its most recent capitalization policy with an internal approval date of November, 2012. Included in the capitalization policy document is the following definition:

[36] Exhibit 61.01.

> Minimum Rule
> "The minimum rule is intended for accounting convenience to provide a dollar limit on the charging of minor items of plant to the plant accounts. When the cost of such items is less than the selected minimum dollar amount, such costs shall be charged to the Operation and Maintenance (O&M) accounts." (Uniform Classification of Accounts)[37]

70. The CCA raised an issue with the following part of the capitalization policy:

- All expenditures directly attributable to the initial purchase or construction /development of a new facility are considered capital regardless of cost (i.e. not subject to the minimum rule).[38]

71. The CCA submitted that a minimum rule should be in place for new facilities and that ATCO Pipelines should be directed to modify this part of its capitalization policy.

72. The CCA also raised an issue with the following part of the capitalization policy:

- Integrity inspection and other inspection that provide assessment of existing plant conditions. The integrity expenditure is capital expenditure regardless of whether parts of the plant are replaced.[39]

73. When asked by the Commission, in information request AUC-AP-007(b),[40] whether an argument could be made for this type of expenditure to be treated as an operation and maintenance expense, ATCO Pipelines replied as follows:

> (b) Please refer to AUC-AP-7. Under IFRS, major inspections must be capitalized for assets where regular inspections are a condition of continued operations. In Decision 2013-064, paragraph 101, the Commission has approved AP's capitalization of inspection costs.[41]

74. The CCA stated that there is an inconsistency between the capitalization policy and ATCO Pipelines' characterization of IFRS. It added that while ATCO Pipelines is proposing to capitalize pipeline integrity inspection costs and other pipeline inspection costs, IFRS only requires capitalization of major inspections where regular inspections are a condition of continued operation. The CCA submitted that ATCO Pipelines should be directed to address its capitalization of pipeline integrity inspection costs and other pipeline inspection costs in its next GRA.

75. ATCO Pipelines replied that no information was provided by the CCA regarding the proposed minimum rule, that the concept is unclear, has not been developed on the record, and has not been tested. It added that the CCA's proposal was not part of the evidentiary portion of the proceeding, and argued that it is inappropriate for the CCA to make recommendations at the argument stage of the proceeding. It submitted that the CCA's proposal regarding the minimum rule be dismissed.

37 Exhibit 34.03, refiled application, Section 5.2, Attachment 2, page 2 of 10.
38 Exhibit 34.03, refiled application, Section 5.2, Attachment 2, page 3 of 10.
39 Exhibit 34.03, refiled application, Section 5.2, Attachment 2, page 3 of 10.
40 Exhibit 61.01.
41 Exhibit 61.01, response to information request AUC-AP-66(b).

76. ATCO Pipelines stated that there is no inconsistency between its capitalization policy for pipeline integrity inspection costs and other pipeline inspection costs, and the treatment of inspection costs under IFRS. It stated that its treatment of pipeline integrity inspection costs is in accordance with the International Accounting Standard (IAS) 16.14, and that such inspections are a condition of continuing to operate the pipeline regardless of whether or not parts are replaced as a result of the inspection. These costs also meet the recognition criteria because the costs can be measured reliably, and there are future economic benefits associated with the inspection arising from the continued operation of the pipeline. ATCO Pipelines submitted that the CCA's request be dismissed.

Commission findings

77. There is no mandatory requirement for a minimum dollar amount for the capitalization of pipeline integrity inspection costs and other pipeline inspection costs. The minimum dollar amount rule in the capitalization policy of ATCO Pipelines indicates that the rule is intended for accounting convenience. The Commission considers that if ATCO Pipelines prefers to not abide by the minimum rule with respect to the capital costs of a new facility, that is within the discretion of ATCO Pipelines, and permissible.

78. The CCA's recommendation regarding the establishment of a minimum rule for new facilities was not raised during the evidentiary portion of the proceeding. The CCA did not suggest what such a minimum amount should be, or how it should be determined. Consequently, even if the Commission wished to explore this recommendation further, there is not sufficient evidence on the record to do so.

79. For these reasons, the Commission denies the request from the CCA that ATCO Pipelines' capitalization policy be modified to include a minimum rule for new facilities.

80. It is clear to the Commission that IAS 16.14[42] refers to major inspections. ATCO Pipelines also acknowledged this in its response to information request AUC-AP-007(b), as quoted above. However, there is a lack of clarity on what constitutes "major" respecting such inspections. IAS 16.14 uses an example of an aircraft, and it indicates that a condition of operating such property, plant and equipment may be performing regular major inspections for faults. The Commission considers that pipeline integrity inspections and other pipeline inspections performed by ATCO Pipelines are a condition of operating pipelines. The Commission finds the record unclear regarding whether there are differences between the pipeline integrity inspections and other pipeline inspections, and whether either of these would be considered major inspections.

81. In response to information request UCA-AP-006(d),[43] ATCO Pipelines stated that it does not have any operation and maintenance costs for pipeline inspections, but capitalizes these costs. The forecast capitalized amounts are $0.9 million for 2013 and $2.1 million for 2014.[44] The Commission considers that the forecast dollar amounts are significant and, under that criterion alone, they would be considered major expenditures. However, in the absence of a breakdown between the costs for the pipeline integrity inspections and other pipeline inspections,

[42] A copy of IAS 16.14 is included in Exhibit 61.01, the response to information request AUC-AP-007.
[43] Exhibit 62.01.
[44] As included in Exhibit 62.01, the response to information request UCA-AP-006(d).

no determination can be made based on the record of this proceeding that either of these types of inspections is major.

82. To enable the Commission and other interested parties to examine this issue on an adequately informed basis, the Commission directs ATCO Pipelines, in its compliance filing, to provide better details about the composition of the $0.9 million and $2.1 million forecast for 2013 and 2014, with respect to pipeline integrity inspections and other pipeline inspections. The details to be provided should include a separation of the forecast costs for each year between pipeline integrity inspections and other pipeline inspections, the purpose of both types of inspections, and a justification for why they fall under the major inspection requirement of IAS 16.14.

4.5 Capital expenditures

83. ATCO Pipelines forecast capital expenditures of $156 million and $177 million for 2013 and 2014 respectively. The increase in capital expenditures over the 2012 level of $81 million is primarily due to requirements to complete large demand driven growth projects (the Norma extension pipeline project to serve core and industrial customers in the Edmonton region, as well as facilities to supply the new Shepard Power Plant located in Calgary) and the continuation of the UPR project in 2014.[45]

4.5.1 ATCO Pipelines' forecast capital expenditures and proposed deferral account treatment

84. In response to AUC-AP-11(g) Attachment 2,[46] ATCO Pipelines provided a historical and forecast breakdown of capital expenditures based on relocation, replacements, improvement, UPR, IT projects, and growth. ATCO Pipelines requested deferral account treatment for the Shepard project and for all growth projects arising from commercial agreements between NGTL and customers on the Alberta System that may be initiated during the test years.

Table 2. ATCO Pipelines 2008-2014 forecast and actual capital expenditures

	($000)												
	2008 forecast	2008 actual	2009 forecast	2009 actual	2010 forecast	2010 actual	2011 forecast	2011 actual	2012 GRA Est.	2012 compli-ance	2012 actuals	2013 forecast	2014 forecast
Relocations	17,000	28,184	2,410	17,076	9,829	11,729	6,360	5,671	2,811	2,811	3,484	6,550	6,550
Replacements	34,325	24,007	43,527	24,548	40,185	37,859	52,972	32,995	14,074	11,912	15,121	34,793	9,874
Improvements	19,760	19,099	31,362	16,377	23,454	21,461	23,960	24,180	31,502	41,502	30,030	38,053	38,259
UPR	0	0	0	0	0	0	56,750	37,016	15,442	2,281	16,383	700	77,606
IT Projects	2,200	2,923	5,470	6,226	1,989	1,860	3,250	1,349	1,970	1,836	1,847	3,750	1,850
Growth	18,082	7,682	7,077	23,432	10,344	9,765	13,457	10,571	14,863	21,817	20,765	71,901	43,196
Total	91,367	81,895	89,846	87,659	85,801	82,674	156,749	111,782	80,662	82,159	87,630	155,747	177,335
Revised total for Decision 2013-064											74,152		
Contributions	15,990	32,976	1,880	15,183	9,189	9,947	6,270	8,990	1,072	1,072	1,291	5,950	5,950

45 Exhibit 34, refiled application, Section 1.1, page 5 of 8.
46 Exhibit 61.03.

85. CAPP, the UCA, and the CCA have all argued that ATCO Pipelines has an extensive track record of over-forecasting capital expenditures and hence rate base and rate base related costs.

86. The UCA submitted that ATCO Pipelines has over-forecast replacement projects and improvement projects based on a historical review of ATCO Pipelines' forecast and actual capital expenditures from 2008-2012. Based on ATCO Pipelines' history, it argued that a reduction of a minimum of 20 per cent in the forecast of replacement costs is warranted. This would result in a reduction of $6.959 million in 2013 and a reduction of $1.975 million in 2014. The CCA argued that a reduction of a minimum of 15 per cent in the forecast of improvements is also warranted. This would result in a reduction of $5.707 million in 2013 and a reduction of $5.739 million in 2014.[47]

87. Alternatively, CAPP proposed that ATCO Pipelines' capital expenditures, and consequently rate base and all rate-base related costs, be treated on an actual or annual deferral account basis. CAPP submitted that ATCO Pipelines' capital additions and rate base satisfy the four criteria for deferral account treatment deemed reasonable by the Alberta Energy and Utilities Board in Decision 2003-100:[48]

1. Materiality of the forecast amount[49]
2 Uncertainty regarding the accuracy and ability to forecast the amount[50]
3. Whether or not the factors affecting the forecast are beyond the utility's control[51]
4. Whether or not the utility is typically at risk with respect to the forecast amount.[52]

88. CAPP argued that test-year forecast treatment of capital expenditures is not an appropriate incentive for efficient and effective capital expenditures. CAPP suggested that treating all ATCO Pipelines capital expenditures, and therefore rate base and rate-base related costs, on a deferral account basis is the simple, uncomplicated approach for both ATCO Pipelines and its customers. CAPP also added that deferral account treatment for all capital expenditures is reasonable in light of ATCO Pipelines' requested deferral account treatment for NGTL-directed capital. CAPP agreed with deferral account treatment for growth and NGTL-directed projects and UPR. UPR is under consideration by the Commission in Proceeding ID. No. 1995. CAPP recommended that all ATCO Pipelines capital expenditures, rate base and rate-base related costs be treated as actuals for each test year of 2013 and 2014 through the use of deferral accounts that are trued up on an annual basis.

89. The CCA supported the UCA's recommended reductions for replacement and improvement projects for 2013 and 2014. The CCA also agreed with CAPP that a rate base deferral account may be appropriate.

90. Although the UCA does not disagree with the deferral account proposal of CAPP, it has traditionally not been an advocate of such an approach. The UCA submitted that without a concomitant review in the Generic Cost of Capital proceeding of the reduced risk created by the CAPP deferral account proposal, the UCA prefers applying reductions to ATCO Pipelines'

47 Exhibit 81.01, testimony of R. Bell on behalf of the UCA, pages 13-15.
48 Decision 2003-100: ATCO Pipelines, 2003/2004 General Rate Application – Phase I, Application No. 1292783, December 2, 2003.
49 Exhibit 111.01, CAPP argument, page 2.
50 Exhibit 111.01, CAPP argument, page 3.
51 Exhibit 111.01, CAPP argument, page 6.
52 Exhibit 111.01, CAPP argument, page 6.

forecast capital expenditure due to ATCO Pipelines' history of over-forecasting capital. If the Commission adopted CAPP's deferral account approach to capital expenditures, the UCA said that any reduction in ATCO Pipelines' risk and the effect on rate of return and/or capital structure should be addressed in the upcoming Generic Cost of Capital proceeding.[53]

91. The UCA also recommended that ATCO Pipelines be directed to apply for identified NGTL-directed capital expenditures in the future:

> Timing:
> o In order not to delay needed infrastructure, the process for review of NGTL projects should be done as a part of an AP GRA. Where projects are known and forecasts are available, the review can take place on a forecast basis, and only material variances need be reviewed when actual results are available. When projects arise between GRAs, the review should occur in the next GRA.
> Information Gathering. AP should provide the Commission with:
> o Identification of need for the project, including requirements of the forecast load of the customer, and any potential load that may be served by the facility.
> o Identification of possible variability in forecast new load, and probabilities of potential variability.
> o Identification of all solution options identified by each of NGTL and AP, with detailed costing for each.
> o For each option identified, an estimate of rate impacts to Alberta customers, prepared by AP with the assistance of NGTL.
> o A full and complete explanation of the reason for AP choosing the selected Option.
> Review:
> o The review should entail an assessment of the options considered, and how AP has chosen the least cost alternative among viable alternatives.[54]

92. The UCA further submitted that if the Commission accepts the above approach, it would mean:

- denying the deferral account for "NGTL Directed Capital Expenditures"
- continuing with the placeholder approach AP has implemented in this application for projects that have not been used in a test year forecast
- establishing clear criteria that NGTL and ATCO Pipelines must satisfy[55]

93. ATCO Pipelines submitted that the directions being requested by the UCA are already incorporated into ATCO Pipelines' processes with respect to NGTL-directed projects and the provision of relevant information as it relates to the assessment of the project. The one exception is with respect to the estimate of rate impacts to Alberta customers. The proper venue for rate impact considerations is a rate proceeding before the National Energy Board. ATCO Pipelines argued that the UCA's suggestion that the Commission deny the requested NGTL-directed

[53] Exhibit 118.02, UCA reply argument, pages 16-17.
[54] Exhibit 110.03, AUC-UCA-22, page 7.
[55] Exhibit 114.02, UCA argument, pages 12-13.

capital expenditures deferral account ignores the fact that ATCO Pipelines is not able to forecast such costs.[56]

94. ATCO Pipelines submitted that the UCA's proposal that forecast capital expenditures for ATCO Pipelines' replacement projects and improvement projects be reduced by 20 per cent and 15 per cent respectively based on a history of continued and material over-forecasting ignores valid explanations for past variances. Further, the UCA's calculation of the variance percentage over a three-year, four-year, and five-year period distorts the magnitude of any variance. ATCO Pipelines submitted that there is no evidence in this proceeding to suggest that ATCO Pipelines' forecasts respecting replacement projects and improvement projects are not reasonable and therefore the Commission should reject the UCA's request for an overall reduction in replacement and improvement type capital expenditures. To reduce the capital forecast for revenue requirement purposes using a single across-the-board percentage ignores the business case information that is part of the 2013-2014 GRA review.[57]

95. ATCO Pipelines submitted that the Commission should give no consideration to CAPP's deferral account proposal as the proposal has no merit in the context of this proceeding, no evidence was filed in support of this proposal and ATCO Pipelines has not had an opportunity to test CAPP's proposal or file rebuttal evidence on this issue.[58] Further, ATCO Pipelines has proposed a principled approach to the establishment of deferral accounts for capital expenditures and rate base, as described in detail in CAPP-AP-52(d),[59] where ATCO Pipelines outlined which projects meet all criteria for deferral account treatment.

96. ATCO Pipelines disagreed with CAPP's view that all ATCO Pipelines capital expenditures meet the criteria for deferral account treatment and therefore deferral account treatment is not warranted.[60]

Commission findings

97. In Decision 2003-100, the Alberta Energy and Utilities Board listed four criteria to be considered when determining whether or not a deferral account should be used:

- Materiality of the forecast amount,
- Uncertainty regarding the accuracy and ability to forecast the amount,
- Whether or not the factors affecting the forecast are beyond the utility's control,
- Whether or not the utility is typically at risk with respect to the forecast amount.[61]

98. In CAPP-AP-52(d),[62] ATCO Pipelines provided a table that showed the capital expenditures that met the four identified criteria in Decision 2003-100. Based on the evidence on the record and the criteria identified in Decision 2003-100, the Commission is not persuaded that deferral account treatment should be applied to all capital expenditures.

56 Exhibit 117.01, AP argument, page 16.
57 Exhibit 112.01 AP argument, page 13.
58 Exhibit 117.01, AP reply argument, page 10.
59 Exhibit 63.01.
60 Exhibit 117.01, AP reply argument, page 12.
61 Decision 2003-100, page 116.
62 Exhibit 63.01.

99. With respect to ATCO Pipelines' requested deferral account treatment for NGTL-directed growth capital expenditures, the Commission accepts ATCO Pipelines' explanation that it was not able to forecast the need or the cost of NGTL-directed capital expenditures and no longer has a mechanism or rate to recover the costs associated with the operation of these growth related projects outside of a forecast test period. ATCO Pipelines implemented Alberta System Integration with NGTL on a commercial basis, effective October 1, 2011. From that date, all commercial agreements for new facilities are executed between NGTL and customers, including facilities in ATCO Pipelines footprint as directed by NGTL. The Commission accepts that the future NGTL-directed capital expenditures will be material, that these forecast costs will be outside of the control of ATCO Pipelines and subject to some uncertainty, and that under integration ATCO Pipelines is at risk with respect to any variance between the forecast and actual expenditure. The Commission considers that ATCO Pipelines' proposed deferral account for NGTL-directed capital expenditures satisfies the criteria established in Decision 2003-110 for deferral accounts and approves such treatment.

100. The Commission also considers that the recommended process for NGTL-directed capital projects is consistent with the information that ATCO Pipelines already includes in its processes and is expected to file in support of its forecast capital expenditures. The issue of rate-related matters is under the jurisdiction of the National Energy Board (NEB). The Commission considers that the additional process or criteria proposed by ATCO Pipelines does not negate the need for a deferral account associated with NGTL-directed capital expenditures based on the criteria established in Decision 2003-100. Consequently, the UCA's recommendations in this regard are not accepted.

101. Having declined CAPP's requested deferral account treatment for all capital expenditures and the additional process recommended by the UCA, the Commission must decide whether the proposed across-the-board reduction to improvements and replacements forecasts is warranted. In its evidence, the UCA submitted that ATCO Pipelines over-forecast replacements by 19.28 per cent, from 2010-2012, 26.4 per cent from 2009-2012 and 27.09 per cent from 2008-2012. Similarly, the UCA submitted that ATCO Pipelines over-forecast improvements by 14.9 per cent from 2010-2012, 23.47 per cent from 2009-2012 and 20.63 per cent from 2010-2012. Although ATCO Pipelines argued that it provided explanations of historical variances between forecast and actuals, the Commission finds that the evidence clearly shows a prolonged pattern of ATCO Pipelines over-forecasting replacement and improvement capital expenditures and concludes that a reduction to ATCO Pipelines' forecast is warranted. Based on the above, ATCO Pipelines is directed in its compliance filing to reduce its replacement and improvement capital expenditures by 19 per cent and 15 per cent respectively.

4.5.2 Capital expenditures – general

102. CAPP noted that in response to CAPP-AP-62(c),[63] ATCO Pipelines provided a list of projects with very similar descriptions (i.e., Carbon Transmission ILI projects, Carbon Loop projects, Paddle River Transmission ILI projects, Viking 3 Transmission ILI projects, Viking 4 Transmission ILI projects). CAPP is not questioning the need for or prudence of these projects. CAPP concluded from the evidence filed by ATCO Pipelines that certain groupings of "General" capital projects forecast by ATCO Pipelines for completion in 2013-2014 do, in fact, constitute larger single projects and that the aggregate cost of each of those larger projects exceeds $500,000, which is the business case threshold for ATCO Pipelines. CAPP recommended that

[63] Exhibit 63.01.

the Commission direct ATCO Pipelines to provide business cases for the aggregate projects prior to those projects being approved for inclusion in ATCO Pipelines' revenue requirement and that they only be allowed into revenue requirement when the entire aggregate project has been completed and is in service.[64]

103. The CCA agreed with CAPP and recommended that Carbon Transmission ILI projects, the Paddle River Transmission ILI projects, the Viking 3 Transmission ILI projects, and the Viking 4 Transmission ILI projects not be added to rate base until the appropriate business cases have been filed.[65]

104. ATCO Pipelines argued that CAPP failed to recognize that each of these projects is on a pipeline at a single location, and once an individual project is completed, that plant will be used and required to be used in its own right. As a result, CAPP's recommendation to aggregate projects for purposes of business cases or inclusion in revenue requirement should be rejected.[66]

Commission findings

105. Although the various disaggregated projects have similar descriptions, the Commission is satisfied with ATCO Pipelines' explanation that once each project is completed it will become used and required to be used. However, the Commission finds that it is not sufficiently clear that these projects are not inter-related. As a result, ATCO Pipelines is directed at its next GRA to clearly confirm that each general project is an independent project and not small components of larger capital expenditures. Although this direction is specific to general capital expenditures, the direction is also applicable to projects above the Commission's business case threshold for ATCO Pipelines of $500,000.

4.5.3 Business cases

106. ATCO Pipelines has categorized its capital expenditures forecast for 2013 and 2014 as relocations, replacements, information technology(IT), improvements, UPR, IT and growth. ATCO Pipelines is required to provide a business case for each capital project forecast to exceed a threshold of $500,000. Business cases are provided by ATCO Pipelines as support for ATCO Pipelines' forecast capital expenditures for the 2013 and 2014 test years. In Section 2.3.1 of the refiled application, ATCO Pipelines provided the following list of capital projects that were accompanied by supporting business cases:

Table 3. ATCO Pipelines business cases

Year initiated	Cost ($000)	Project
2012	1,000	Relocate 60/88-mm Bragg Creek lateral
2012	545	Install Manawan Lake delivery station
2012	52,000	Install Norma transmission pipeline
2012	540	Replace 114-mm House Mountain transmission
2012	71,881[67]	Install Shepard power plant delivery
2013	1,100	Pipeline integrity management system (IT)
2013	1,400	Maintenance management system (IT)

64 Exhibit 111.01, CAPP argument, page 10.
65 Exhibit 115.01 CCA reply argument, page 3.
66 Exhibit 117.01, AP reply argument, page 13.
67 Revised from original placeholder of $45.250 million.

Year initiated	Cost ($000)	Project
2013	1,450	Oracle E-Business upgrade (IT)
2013	11,104	Replace southeast Red Deer pipeline
2013	590	Replace 168-mm Nevis-Airdrie Highway 2 crossing at Gasoline Alley
2013	12,000	COB - construct new operations base
2013	560	Upgrade Ft. Sask. south Frac delivery
2013	540	Upgrade Ft. Sasks north Frac utility delivery
2013	855	Replace 323-mm Jumping Pound at Elbow River in Weaselhead Park
2013	9,500	Northeast east Edmonton ring road pipeline relocation
2013	495	Replace 114-mm Cardston transmission at Pothole Creek
2013	540	Replace 168-mm Cardston transmission at St. Mary River
2013	2,280	Upgrade 3.2 km of 323-mm Usona Transmission for Class Location @ 50-24-W4M
2013	4,400	Upgrade 406-mm/508-mm Carbon System for Class 3 location requirements
2013	1,480	Replace Salt Caverns DCS
2013	540	Salt Cavern 12-4 casing inspection
2013	5,200	Replace 10 km of 219-mm southern extension on reserve
2013	1,700	Relocate 2.5 km of 168-mm Banff transmission
2014	500	Records management - digitization project (IT)
2014	740	Replace Bailey DCS at Edmonton Ethane Extraction Plant (EEEP)
2014	950	Upgrade Wainwright receipt & delivery stations
2014	14,000	Replace 25 km of Banff transmission bare pipe
2014	2,250	Upgrade Cloverbar lateral for ILI
2014	495	Upgrade odorization system at Entice control station
2014	485	Upgrade west Edmonton chemical delivery station
2014	820	Upgrade Slave Lake Mitsue control station
2014	595	Cloverbar 3 & 4 - upgrade discharge separators
2014	1,800	Upgrade 60-mm Red Deer Lake Aluminum transmission
2014	580	Salt Cavern 20-6 casing inspection
2014	2,000	Install Banff Transmission Bow River Crossing at Exshaw
2014	510	Upgrade Peers compressor shutdown panels
2014	2,095	Asset swap

107. In Decision 2003-100, the Alberta Energy and Utilities Board concluded that:

> With regard to the minimum cost threshold requiring ATCO Pipelines to conduct business case analyses, the Board continues to accept ATCO Pipelines' minimum cost threshold for major projects of $500,000; however, this threshold would not preclude the Board or interveners from requesting ATCO Pipelines to justify or provide better explanations or information in relation to smaller capital expenditures.[68]

108. The Commission has included below a discussion of the business cases filed by ATCO Pipelines in support of its 2013-2014 forecast capital expenditures.

4.5.3.1 Relocations

109. In 2013 and 2014, ATCO Pipelines is forecasting $4.75 million in each of 2013 and 2014, plus general relocation expenditures for pipeline relocations that are required for the construction of the northeast segment of the Anthony Henday ring road around Edmonton. As the pipeline relocations were requested by Alberta Transportation (through the P3 proponent), 100 per cent of project expenditures will be offset by contributions in aid of construction.

4.5.3.2 North Edmonton Anthony Henday Drive pipeline relocations

110. Alberta Transportation awarded the contract for the northeast Edmonton Anthony Henday Drive project to the Flatiron-Dragados-Aecon-Lafarge joint venture (the P3 proponent) The P3 proponent for the northeast Edmonton Anthony Henday Drive project has identified 11 sites requiring alterations of ATCO Pipelines facilities based on the design of the proposed road and associated facilities. Relocations are required over a two-year period during 2013 and 2014 in advance of road construction. As the pipeline relocations were requested by Alberta Transportation, through the P3 proponent, and 100 per cent of actual costs are being reimbursed, no alternatives were examined.

111. To date, ATCO Pipelines has received AUC facilities approval to construct and operate a portion of the identified northeast Edmonton Anthony Henday Drive project in Delegated Authority (DA) 2013-213[69] and DA2013-244.[70]

112. The Commission finds ATCO Pipelines' northeast Edmonton ring road project to be necessary. The Commission has reviewed the business case for the project and finds the forecast costs and the associated contribution offset to be reasonable. ATCO Pipelines' forecast capital expenditures with respect to ATCO Pipelines' northeast Edmonton ring road are approved as filed.

4.5.3.3 Relocate 60/88 millimetre (mm) Bragg Creek lateral

113. ATCO Pipelines also included a business case with respect to the relocation of two sections of the Bragg Creek branch line as requested by the County of Rocky View. ATCO Pipelines indicated that new road development for the county is required to upgrade the existing

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68 Decision 2003-100: ATCO Pipelines 2003/2004 General Rate Application – Phase I, Application No. 1292783, December 2, 2003, page 13.

69 DA2013-213: ATCO Gas and Pipelines Ltd. (South), Anthony Henday Drive/Wye Road Pipeline Relocation, Permit and Licence No. 3295, Application No. 1609856, Proceeding ID No. 2792, September 11, 2013.

70 DA2013-244: ATCO Gas and Pipelines Ltd. (South), Temporary Surface Pipeline at Wye Road and Anthony Henday Drive, Permit and Licence No. 3295, Application No. 1609992, Proceeding ID No. 2873, October 25, 2013.

road to allow for increased traffic flows. Under the indemnity agreement with Rocky View County,[71] no contribution from the county is required.

114. ATCO Pipelines received approval in DA2012-321[72] to abandon the existing 60 mm of pipe and to construct the new pipe in DA2012-130.[73]

115. The Commission has reviewed the justification of the Bragg Creek lateral and is satisfied that the relocation is required due to road upgrades, while also upgrading the size of the pipelines from 60 mm to 88 mm, which reduces an existing bottleneck in the supply to the Bragg Creek south FTU metering facility. The Commission has reviewed the business case for the project and finds the forecast costs with respect to the Bragg Creek lateral to be reasonable. This project is approved as filed.

4.5.3.4 Replacements

4.5.3.5 Replace 168 mm Nevis-Airdrie Crossing at Highway 2

116. ATCO Pipelines forecast $540,000 and $50,000 in 2013 and 2014 respectively to replace the 168 mm Nevis Airdrie cased crossing of Highway 2 in Red Deer because the casing is shorted to the pipeline and is subject to corrosion. ATCO Pipelines explored the possibility of in-line inspection to determine the severity of any corrosion, but the pipeline is not piggable.

117. ATCO Pipelines has received approval in DA2013-188[74] from the AUC with respect to replacing the Nevis-Airdrie crossing.

118. The Commission finds that ATCO Pipelines' proposed replacement is warranted as a means to reduce the risk of corrosion and leaks on the existing pipe. The Commission has reviewed the business case for this project and finds ATCO Pipeline' forecast capital costs associated with the Nevis-Airdrie crossing to be reasonable. This project is therefore approved as filed.

4.5.3.6 Replace 114 mm House Mountain Transmission on Moosehorn Hill

119. ATCO Pipelines forecast $480,000 in 2012 and $60,000 in 2013 for the replacement of the entire portion of the pipeline on Moosehorn Hill. ATCO Pipelines also indicated that its proposed replacement was consistent with discussions with the ERCB over continued operation of the pipeline after a line break in February 2012.

120. The Commission considers that the House Mountain transmission replacement project is warranted. The Commission has reviewed the business case and finds the forecast capital expenditures to be reasonable. This project is approved as filed.

[71] Exhibit 61.01, AUC-68(a) attachment.

[72] DA2012-321: ATCO Gas and Pipelines Ltd. (South), Amendment to Abandon Pipelines to Accommodate a Road Upgrade by the County, Permit and Licence No. 14058, Application No. 1608963, Proceeding ID No. 2217, November 7, 2012.

[73] DA2012-130: ATCO Gas and Pipelines Ltd. (South), Amendment to Accommodate Upgrading in Rocky View County, Amendment to Permit and Licence No. 14058, Application No. 1608451, Proceeding ID No. 1890, May 22, 2012.

[74] DA2013-188: ATCO Gas and Pipelines Ltd. (South), Pipeline Split, Removal and New Construction, Permit and Licence No. 2029, Application No. 1609809, Proceeding ID No. 2759, August 16, 2013.

4.5.3.7 Red Deer southeast replacement

121. ATCO Pipelines submitted that the Red Deer southeast pipeline replaces the existing Nevis transmission pipeline within the city of Red Deer, which is to be removed from high pressure service. This will significantly reduce the risk associated with a high pressure pipeline in proximity to high density urban development because the existing pipeline is located in a developed and populated residential and commercial area. As justification for the replacement ATCO Pipelines submitted in its business case:

> An External Corrosion Direct Assessment (ECDA) report was completed in 2008/2009 and recommended six areas for excavation to further inspect potential corrosion and coating damage on the pipe. The digs were planned but not completed because discussions around the replacement of the line had commenced. The report also includes a depth of cover survey and five locations on the Nevis Transmission line were identified as not having sufficient cover, four at road crossings and one field location. These locations do not meet the code requirements of CSA Z662-11 and would need to be replaced prior to an in line inspection or hydrotest. Installing a new 219mm transmission line will provide the increased capacity to ensure safe and reliable transmission of natural gas to the growing City of Red Deer and surrounding areas. The construction of the new pipeline will shift the supply for customers within the urban service territory away from the high pressure pipeline located within residential and commercial areas to the new pipeline located near the edge of the city limits. The selected alignment for the new pipeline runs parallel to an existing high voltage power line. This will ensure that development is limited along the proposed route.

122. The Commission finds ATCO Pipelines' proposed replacement of the Nevis pipelines to be warranted given the age of the pipeline (installed in 1956). The Commission considers that the replacement of the Nevis pipeline is required due to its non-compliance with Canadian Standard Association (CSA) code requirements and when that removing an existing high pressure line from service that is over 60 years old will reduce the risks of pipeline failure. Further, if ATCO Pipelines kept the Nevis pipeline into service, it would be required to invest at least $5.4 million to hydrostatically test the Nevis pipeline. Because a hydrostatic pressure test can only verify the short term integrity of the pipeline, completing an in-line inspection and a pressure test every five years would be required.[75] Given the age of the pipeline, the incremental costs of bringing the existing pipeline up to CSA requirements, the challenges associated with hydro-testing a pipeline in an urban setting, and having reviewed the forecast costs in the business case, the Commission approves the forecast capital expenditure for the southeast Red Deer replacement in the test years, as filed.

4.5.3.8 Replace 323 mm Jumping Pound at Elbow River in Weaselhead Park

123. ATCO Pipelines forecast capital costs of $150,000 in 2013 and $705,000 in 2014 to replace pipeline that is currently exposed in the river.

124. The Commission has reviewed the business case for this project and considers that replacement of the pipeline is warranted given the potential risk of damage from an exposed pipeline. Having reviewed ATCO Pipelines' forecast capital costs related to the replacement of the pipeline, the Commission finds them to be reasonable. This project is approved as filed.

[75] UCA-AP-21(d-e).

4.5.3.9 Replace the 114 mm Cardston Transmission line at Pothole Creek

125. ATCO Pipelines forecast $445,000 and $50,000 in 2013 and 2014 respectively to replace the Cardston transmission pipeline because it is currently exposed in the creek.

126. The Commission considers that ATCO Pipelines' proposed replacement of the pipeline is reasonable to reduce the risk of damage or failure as a result of an exposed pipeline. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital expenditures to be reasonable. Therefore this project is approved as filed.

4.5.3.10 Replace the 168 mm Cardston transmission line

127. ATCO Pipelines forecast of $490,000 in 2013 and $50,000 in 2014 to replace the Cardston transmission line at St. Mary River is warranted because the pipeline is currently exposed in the river. ATCO Pipelines explained that it is a regulatory code requirement to have a depth of cover of 1.2 metres (m) over a pipeline water crossing. Restoring the depth of cover for the water crossing will minimize the potential risk of failure.

128. The Commission considers that ATCO Pipelines' proposed replacement of the pipeline is warranted to reduce the risk of damage or failure as a result of an exposed pipeline. The Commission has reviewed the business case for this project and finds ATCO Pipelines' forecast capital expenditures to be reasonable. This project is therefore approved as filed.

4.5.3.11 Replace southern extension Reserve Phases 2B/2C

129. ATCO Pipelines forecast $5.0 million in 2013 and $200,000 in 2014 to install approximately 10 kilometres (km) of 219 mm southern extension transmission through the Samson (6.6 km) and Ermineskin (3.5 km) Reserve from LSD 12-44-25-W4M to LSD 34-44-24-W4M. The existing nine km of 219 mm pipeline will be abandoned and removed. ATCO Pipelines explained that this pipeline was installed in 1945/1946 and is nearing the end of its useful life. A detailed integrity assessment raised concerns with respect to the functionality and safe operation of the pipeline. ATCO Pipelines received approval from the Commission in Decision 2013-372 to construct and operate the southern extension Reserve replacement.

130. Given that the Commission approved this project in Decision 2013-372, the Commission finds that replacing the pipeline is prudent. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital costs associated with this project to be reasonable. This project is approved as filed.

4.5.3.12 Replace 2.5 km of 168 mm Banff transmission

131. ATCO Pipelines forecast capital costs of $1.65 million in 2013 and $50,000 in 2014 to replace approximately 2.5 km of the168 mm Banff transmission pipeline which has experienced corrosion leaks and cannot be cathodically protected.

132. The Commission accepts that the 2.5 km pipeline replacement is warranted in order to eliminate two separate 200 m long segments of bare 168 mm pipeline that are susceptible to corrosion and to prevent possible future pipeline leaks due to corrosion and to ensure that safe and reliable natural gas service to ATCO Pipelines' customers is maintained. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital expenditures to be reasonable. This project is therefore approved as filed

4.5.3.13 Replacement of Banff transmission pipeline at Canmore

133. ATCO Pipelines has forecast $10.987 million in 2013 to relocate and replace the existing Banff transmission pipeline at Canmore to accommodate long-term growth forecasts for the area. In CCA-AP-6, ATCO Pipelines indicated that it has all the necessary approvals including the AUC pipeline construction permit approved in Decision 2012-342.

134. The Commission has reviewed ATCO Pipelines' business case with respect to the project and is satisfied that the forecast costs are reasonable in light of the existing capacity limitations of the pipeline, the age of the pipeline(constructed in 1950), and the location of the existing pipeline which is in a busy area of Canmore and which has raised encroachment and safety concerns. ATCO Pipelines' forecast costs related to the replacement of the Banff transmission pipeline at Canmore are approved.

4.5.3.14 Replace 27 km of Banff transmission bare pipe

135. ATCO Pipelines had originally forecast $500,000 in 2013 and $13.5 million in 2014 to replace 27 km of Banff transmission bare pipe but revised its forecast. ATCO Pipelines explained in AUC-AP-89 that it has reviewed the need to replace the 27 km section of 219 mm bare pipe upstream of the Seebe Bridge. It was concluded that the parallel 323 mm loop is sufficient to meet all downstream market requirements. As a result, ATCO Pipelines will look to abandon this section and connect existing tap customers to the 323 mm loop at an estimated cost of $1,200,000, in addition to $2,000,000 for construction of approximately two km of 219 mm pipeline necessary to reconnect the 219 mm lateral immediately downstream of the section to be abandoned. ATCO Pipelines also determined the need to replace approximately three km of 219 mm bare pipe downstream in the Exshaw area at an estimated cost of $3,000,000. All work is to be completed in 2015. Accordingly, ATCO Pipelines withdrew its request for approval to replace this section of pipeline. An updated business case will be filed as soon as it is available.

136. The Commission accepts ATCO Pipelines' proposed revision to its capital expenditures forecast and directs ATCO Pipelines to reflect the withdrawal of this capital project in its compliance filing.

4.5.3.15 Improvements

4.5.3.16 Remove and upgrade the Bailey DCS (distributed control system) to a current DCS system at the Edmonton Ethane Extraction Plant Facility (EEEP)

137. ATCO Pipelines proposed to install a new DCS system to ensure continued operation of the facility with minimal downtime for maintenance, while increasing reliability at a cost of $690,000 in 2014 and $50,000 in 2015.

138. Given that the manufacturer has informed ATCO Pipelines that it will no longer provide support after 2015 and that manual operation of the facility is not feasible in the event of the current DCS failing, the Commission finds this project to be warranted. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' 2014 forecast costs with respect to the DCS system at the EEEP to be reasonable. This project is approved as filed.

4.5.3.17 Upgrade odorization system at Entice control system

139. ATCO Pipelines forecast capital cost in 2014 of $470,000 and $25,000 in 2015 for the purposes of upgrading its odorization system at Entice.

140. The Commission has reviewed ATCO Pipelines' supporting business case and is satisfied with ATCO Pipelines' explanation that the existing Williams odorant pump is obsolete and has reached the end of its useful life. The Commission also finds the forecast costs to be reasonable. This project is approved as filed.

4.5.3.18 Upgrade West Edmonton chemical delivery station

141. ATCO Pipelines forecast $445,000 in 2014 and $40,000 in 2015 to install a new delivery station to replace the existing West Edmonton chemical delivery station. ATCO Pipelines explained that the existing delivery station required replacement because it lacks butterfly valves that are double block and bleed isolation valves, and its existing valves are considered obsolete. Further, the existing station is in a flood prone area.

142. The Commission has reviewed ATCO Pipelines' business case and is satisfied that an upgrade of the West Edmonton chemical delivery station is warranted to meet Alberta Occupational Health and Safety Code requirements and to ensure security of supply to customers. The Commission finds ATCO Pipelines' 2014 forecast capital expenditures with respect to the West Edmonton chemical delivery station to be reasonable. This project is approved as filed.

4.5.3.19 Upgrade 3.2 km of 323 mm Usona transmission for class location

143. ATCO Pipelines forecast $1.98 million in 2013 and $300,000 in 2014 to replace a section of the existing pipeline Usona transmission pipeline, with an upgrade to a lower maximum stress level for a Class 3 location to accommodate the development of land for residential and commercial properties. The land development will result in a change to a Class 3 location which will cause the section of the Usona transmission pipeline to no longer meet the regulatory requirements specified in CSA Z662-11. The pipe stress level for this section is currently 72 per cent. It is a regulatory code requirement to have a maximum stress level of 50 per cent for road and rail crossings and 56 per cent for general areas in a Class 3 location.

144. To date, ATCO Pipelines has received Commission approval with respect to the Usona project in DA2012-187[76] and DA2013-191.[77]

145. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast Usona upgrade capital costs to be reasonable as it is the only viable alternative to comply with CSA requirements while maintaining the required pipeline pressure and offering a single phase transmission replacement. The forecast capital costs associated with this project are therefore approved.

4.5.3.20 Salt Caverns – Cavern 12-4 and 20-6 casing inspection

146. ATCO Pipelines forecast $540,000 in 2013 and $580,000 in 2014 to inspect its Cavern 12-4 and Cavern 20-6 to ensure that the storage facilities may be operated safely. ATCO Pipelines submitted that CAN/CSA Z341-2010 requires cemented casing inspections at a minimum of 10-year intervals to verify suitability of the casing for continued safe operation. The

[76] DA2012-187: ATCO Gas and Pipelines Ltd. (South), Amendment to Accommodate Line Upgrading and Removal, Permit and Licence No. 30417, Application No. 1608633, Proceeding ID No. 2020, July 23, 2013.

[77] DA2013-191: ATCO Gas and Pipelines Ltd. (South), Usona Transmission Pipeline Replacement, Permit and Licence No. 30417, Application No. 1609811, Proceeding ID No. 2766, August 16, 2013.

Cavern 12-4 casing was last inspected in 2003. ATCO Pipelines would not be in compliance with CSA Z341 without a documented casing inspection program.

147. The Commission finds that ATCO Pipelines' proposed forecast Salt Caverns casing inspections are warranted based on the requirements of CAN/CSA Z341 and such casing inspections are a prudent safety measure required to reduce the potential risk of gas leaks. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast cavern inspection costs to be reasonable. This projects are approved as filed.

4.5.3.21 Upgrade Slave Lake Mitsue control station

148. ATCO Pipelines forecast $780,000 in 2014 and $40,000 in 2015 to upgrade its Slave Lake Mitsue control station. Specifically, AP proposed to:

- stabilize the building foundation to prevent further shifting and existing station piping will be modified as needed to alleviate any stress caused by the building movement
- upgrade odorant storage at the existing control station
- upgrade SCADA to accommodate the proposed odorization system and metering enhancements

149. The Commission finds that ATCO Pipelines' 2014 upgrade with respect to Slave Lake Mitsue control station is reasonable in light of the current condition of the station building which is susceptible to shifting, and the existing Williams odorant pumps which are unreliable and obsolete. Having reviewed the business case, the Commission finds the forecast capital expenditure to be reasonable. This project is approved as filed.

4.5.3.22 Peers compressors – upgrade shutdown panels

150. ATCO Pipelines forecast capital costs of $510,000 in 2014 to replace obsolete AMOT Microguard II shutdown panels with new REMVue units and install new end devices on each Peers compressor unit. The panels are needed to monitor and protect both the engine and compressor components.

151. The Commission is satisfied with ATCO Pipelines' explanation that the existing panels are obsolete and that replacing them with new REMVue units which provide enhanced program features is warranted. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital costs to be reasonable. Therefore this project is approved as filed.

4.5.3.23 Upgrade 406 mm/508 mm Carbon/Carbon loop for class location

152. ATCO Pipelines forecast $1.15 million in 2013 and $250,000 in 2014 to upgrade the Carbon system for Class 3 location requirements consistent with CSA Z662-11 class location requirements. The change in class location requirement is necessary because of the proposed residential development near Cornich.

153. The Commission finds that ATCO Pipelines' preferred option is the only viable option based on required operating pressures and therefore finds this project to be warranted. Having reviewed the business case for this project, the Commission finds AP's forecast capital costs to be reasonable. This project is approved as filed.

4.5.3.24 Upgrade Ft. Sask. south and north frac delivery stations

154. ATCO Pipelines forecast $530,000 in 2013 and $30,000 in 2014 to upgrade the Ft. Sask. south frac delivery station. AP also forecast $510,00 in 2013 and $30,000 in 2014 for an upgrade to the north frac delivery station. ATCO Pipelines explained that these facilities require replacement because the existing station is obsolete, and does not meet ATCO Pipeline standards, the existing plug valves are not double block and bleed, and the custody transfer meters do not meet American Gas Association three requirements.

155. The Commission accepts ATCO Pipelines' explanation that the existing facilities are obsolete and do not conform with occupation, health, and safety code requirements (OH&S) and pose safety and security of supply risks. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital expenditures to be reasonable. Therefore this project is approved as filed.

4.5.3.25 Upgrade Indus pipeline

156. In CAPP-AP-1,[78] ATCO Pipelines explained that its actual capital additions were lower than forecast in 2012 partly due to a delay in upgrading the Indus pipeline because of land acquisition delays. As a result, $7.004 million ($1.222 million spent in 2012) in capital costs related to the Indus upgrade are included in ATCO Pipelines' 2013 forecast.

157. In Proceeding ID No. 2041, ATCO Pipelines filed a business case in support of the Indus upgrade. ATCO Pipelines explained that replacement of the existing pipeline with 20 km of 144 mm transmission pipeline is required because the capacity of the Indus lateral will be exceeded. Further, the majority of the Indus pipeline is aluminum, which increases the risk of damage from third parties and requires its removal from service when repairs are required. ATCO Pipelines explored alternatives but they were not found to be viable.

158. ATCO Pipelines received approval from the Commission in Decision 2012-254 to replace the Indus pipeline.

159. The Commission finds that ATCO Pipelines' 2013 forecast capital costs with respect to the Indus pipeline are reasonable based on ATCO Pipelines' explanation of the problems associated with the existing aluminum pipe and the need to increase capacity to meet forecast demand growth in the town of Indus and the surrounding area. ATCO Pipelines' 2013 forecast capital expenditures associated with the Indus pipeline are approved as filed.

4.5.3.26 Cloverbar 3 and 4 – upgrade discharge separators

160. ATCO Pipelines forecast $570,000 in 2014 and $25,000 in 2015 to install diameter separators on the unit discharge piping for each of compressor units 3 and 4. Currently there is one 762 mm (30 inches) diameter separator on the combined discharge piping for both compressor units 3 and 4.

161. The Commission considers that ATCO Pipelines' proposal to upgrade its discharge separators at Clover 3 and 4 is reasonable based on existing flow rates being above Cloverbar units 3 and 4 discharge separator capacity. Further, the Commission accepts that gas quality for end use customers should be free of liquids and that the additional separators will assist in

[78] Exhibit 63.01.

collecting additional liquids from gas thereby avoiding a negative impact on customers. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' 2014 forecast capital costs to be reasonable. This project is therefore approved as filed

4.5.3.27 Upgrade distributed control system Salt Caverns

162. ATCO Pipelines forecast $1.28 million in 2013 and $200,000 in 2014 to replace the current Salt Cavern distributed control system with a new system because the manufacturer will no longer provide support for the system.

163. The Commission finds that ATCO Pipelines' forecast upgrade of this distributed control system is warranted considering that the manufacturer no longer provides support. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital costs with respect to this project to be reasonable. This project is therefore approved as filed.

4.5.3.28 Upgrade valve assemblies on 610 mm/710 mm Cloverbar transmission for ILI - five sites

164. ATCO Pipelines forecast $2.25 million in capital expenditures in 2014 to upgrade valve assemblies and a line diameter reducer as required to accommodate the launching, running and receiving of in-line inspection tools on this multi-diameter pipeline. This 762/610 mm multi-diameter pipeline was built in 1982 with a tape coating. Pipelines of this type are susceptible to corrosion damage.

165. The Commission accepts ATCO Pipelines' justification for the project because these large diameter, tape-coated pipelines are susceptible to corrosion and stress corrosion cracking which are a risk to public safety and in-line inspection of the pipeline is required to assess the severity of metal loss on the pipeline. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital costs with respect to this project to be reasonable. This project is therefore approved as filed.

4.5.3.29 Upgrade 3.2 km of 60 mm Red Deer Lake aluminum transmission

166. ATCO Pipelines forecast $1.55 million in 2013 and $250,000 in 2014 to upgrade 2.9 km of the 1978 vintage 60 mm Red Deer Lake aluminum transmission pipeline located in Calgary to prevent possible future pipeline system outages caused by third party damage or unplanned repairs so as to ensure that safe and reliable natural gas service to ATCO Pipelines' customers is maintained. Aluminum pipelines were not historically installed in urban areas where there are higher levels of construction activity than in rural areas. With the additional activity that occurs with the encroachment of urban areas, the probability of damage due to third party contact with the pipeline becomes higher. As aluminum piping has become an obsolete product in the pipeline industry, the procurement of materials related to aluminum systems has become increasingly difficult and contractor availability is extremely limited. These limitations affect ATCO Pipelines' ability to perform pipeline maintenance and repairs in a timely fashion.

167. The Commission accepts ATCO Pipelines' justification for the project and its explanation that aluminum pipe is more susceptible to damage and is no longer utilized in the industry, especially in urban areas. Having reviewed the business case for this project, the Commission finds the forecast costs for the upgrade to be reasonable and the project is approved as filed.

4.5.3.30 NGTL asset swap

168. In CAPP-AP-7(f),[79] ATCO Pipelines filed the supporting business case for the NGTL asset swap capital expenditure placeholder of $2.095 million in 2014. The total capital cost of the project is $2.675 million, $580,000 of which is included in 2015. The asset swap project includes installing signage on the pipelines acquired from NGTL as part of the asset swap and installing communications equipment to allow for the operation of the meter station facilities at 100 sites. The assets to be acquired from NGTL were outlined in the asset swap agreement. The project is dependent on NGTL receiving NEB approval for the asset swap. Timing of the asset swap expenditures assumes an NGTL filing in 2013 and NEB approval being received in early 2014. Expenditures in 2014 will include pre-engineering all sites, procurement and receipt of all materials, completion of assembly of components in standardized panels for all sites, and initiation of field work. Expenditures in 2015 include completion of remaining field work.

169. In Decision 2012-310, the Commission approved the ATCO Pipelines Asset Swap application. The Commission is satisfied that ATCO Pipelines has justified the underlying need for the asset swap capital expenditures, but concludes that there is significant uncertainty as to when NGTL will file its application with the NEB and that it is unlikely that a decision will be rendered by the NEB in 2014. As a result, the Commission approves a capital expenditures placeholder with respect to the asset swap, but assigns a placeholder value of $0. ATCO Pipelines is directed to revise its capital expenditures forecast in its compliance filing, accordingly. ATCO Pipelines' asset swap placeholders are also addressed in Section 9.2 of this decision.

4.5.3.31 Install Banff transmission Bow River Crossing at Exshaw

170. ATCO Pipelines forecast $1.8 million in 2013 and $200,000 in 2014 to install a new crossing of the Bow River for the 219 mm Banff transmission because the existing Banff transmission crossing of the Bow River needs to be replaced. The existing crossing was built in 1951 and consists of approximately 45 m of pipe suspended from the abandoned Highway 1 vehicle bridge.

171. The Commission considers that ATCO Pipelines' proposed pipeline replacement is warranted because the existing Banff transmission crossing is suspended from an abandoned Highway 1 vehicle bridge that ATCO Pipelines determined is no longer fit for service and a new crossing for the Banff transmission is needed to ensure safe and reliable natural gas service to ATCO Pipelines' customers in the Exshaw, Canmore and Banff areas. Moreover, the Commission considers that the age of the crossing also further reinforces the need for its replacement. Having reviewed the business case for this project, the Commission finds ATCO Pipelines' forecast capital costs with respect to the project to be reasonable and this project is therefore approved as filed.

4.5.3.32 Calgary operations base

172. ATCO Pipelines forecast capital expenditures of $9 million in 2013 and $3 million in 2014 to construct a new Calgary operations base (COB) to meet the current and future needs of the ATCO Pipelines operations, construction and process control groups in Calgary.

[79] Exhibit 63.01.

173. The UCA argued that the costs related to a new COB are closely related to the current operations base that is no longer adequate for ATCO Pipelines. As such, the AUC argued the close connection between the two facilities should be recognized in the AUC's decision. The UCA contended that there is a real possibility that the existing COB will not be required for utility service in the near term, and may be sold. The UCA argued that the *Stores Block* decision[80] gave the Commission the jurisdiction to impose a condition on the sale of assets that the utility reinvest part of the sale proceeds back into the company in order to maintain a modern operating system that achieves the optimal growth of the system.[81] The UCA cited the Court of Appeal's *Harvest Hills* decision[82] as addressing the "close connection" that must exist between the sale of assets and any future acquisitions in order for the Commission to be able to direct that the sale proceeds be re-invested into the system providing the example of selling "a pumping station" when there is a need to "access a different pumping station or even replace the existing one." The UCA asserted that the sale of assets related to the COB for the purpose of moving to a new facility would satisfy the *Harvest Hills* test.

174. The UCA expressed its concern that this reinvestment requirement can be frustrated by allowing purchase of the replacement to occur first, if the utility might delay the disposal of the initial asset which had to be replaced. Instead of system renewal and reinvestment, the UCA argued that the result would be a windfall gain to utility shareholders and an increased expense for ratepayers. The UCA recognized that ATCO Pipelines has not applied to dispose of the existing COB and there is, accordingly, no reason for the Commission to make any conditional attachment of sale proceeds. The UCA proposed that it would be efficient, however, for the Commission to use the current factual record to find that there is a close connection between the end of ATCO Pipelines' use of the COB and the proposed construction of the new facility. The finding would be relevant in the event that the old COB is disposed of in the near future, and obviates the need for parties to revisit whether and how the two facilities are connected. The UCA recommended that the Commission issue a finding that approval of the construction of the new COB is a direct result of the old facility no longer being suitable for use by ATCO Pipelines and, as such, there is a close connection between the two facilities. Further, the UCA recommended that, if the old property is determined to be no longer used or required to be used for utility service, it should also be removed from rate base.[83]

175. In addition, Mr. Bell's evidence on behalf of the UCA analyzed whether the business case for the new COB considered hosting ATCO Pipelines staff from the downtown Calgary ATCO Centre. Based on reasonable financial estimates, Mr. Bell concluded that there was a material savings opportunity in combining the COB and the existing office at the ATCO Centre Calgary to a lower cost combined facility, which ATCO had failed to explore. The UCA argued that ATCO Pipelines should be directed to file a better business case as part of its compliance filing that includes an estimate of the costs and benefits of including office space at the COB that would replace the ATCO Centre Calgary office space occupied by ATCO Pipelines, and the total cost of ATCO Pipelines occupying space at the ATCO Centre Calgary.[84]

80 *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)* 2006 SCC 4
81 *ATCO Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board)*, 2006 SCC 4, paragraph 77.
82 *ATCO Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board)*, 2009 ABCA 171.
83 Exhibit 114.02, UCA argument, pages 13-14.
84 Exhibit 114.02, UCA argument, pages 14.

176. ATCO Pipelines submitted that it has sufficiently evaluated options[85] available to it, and that its proposal as contained in the COB business case filed as part of its refiled application shows the project to be reasonable and prudent. ATCO Pipelines submitted that that there is no justification for any disallowance or any requirement for an expanded business case as requested by the UCA.

177. In response to AUC-AP-108, ATCO Pipelines noted that there are existing high pressure pipelines on the existing COB site, that are required for utility service by ATCO Pipelines. Therefore, based on current circumstances, the existing COB will continue to be used for utility service. Although ATCO Pipelines acknowledged the UCA's suggestion that there is a real possibility that the existing COB will not be required for utility service in the near term, and may be sold, such an assertion is simply conjecture and should be given no weight by the Commission.[86]

Commission findings

178. The Commission has reviewed ATCO Pipelines' COB business case and is satisfied that the project is required for the current and future needs of ATCO Pipelines' operations, construction and process control groups in Calgary. Further, the Commission is satisfied that ATCO Pipelines has considered all viable alternatives for the new COB, including the UCA's proposal of a combined facility for the existing office at the ATCO Centre Calgary and COB. As ATCO Pipelines stated in response to UCA-AP-127:

> AP considered at a conceptual level the possibility of building a larger, combined office and operations base and moving all staff out of the Calgary ATCO Center. This option was not pursued because it does not meet the business needs of AP due to the need to maintain direct contact with operational customers, NGTL, and ATCO Corporate office; location accessibility; transportation options such as access to public transit; proximity to various amenities such as recreation, shopping, restaurants, doctor or dentist offices; and the risk to staff attraction and retention.

179. Regarding the Commission exercising jurisdiction based on the *Stores Block* and *Harvest Hills* decisions as urged by the UCA, the Commission is not prepared to find that the existing COB is not still required for utility service. There is no evidence demonstrating that ATCO Pipelines has plans to dispose of the existing COB in the near term. If AP in the future does decide to dispose of the existing COB, interveners may argue the applicability of the *Stores Block* and *Harvest Hills* decisions at that time.

180. Having reviewed the business case for this project, the Commission finds that the forecast capital project costs from the COB project to be reasonable and the project is approved as filed.

[85] Exhibit 62.01, UCA-AP-127.
[86] Exhibit 112.01, AP argument, page 15.

4.5.3.33 UPR

181. ATCO Pipelines has included forecasts in 2013 and 2014 for the continuation of the UPR program and has reflected the recovery of all UPR project costs incurred in 2012. 2012 UPR costs are currently in CWIP and accumulating AFUDC.

Table 4. UPR capital projects

UPR	2013 forecast	2014 forecast
North West Edmonton connector pipeline extension	100	
South East Calgary connector pipeline extension	200	19,628
East Calgary connector pipeline extension	100	25,857
North East Calgary connector pipeline extension	200	27,141
South West Edmonton connector pipeline extension	100	1,000
North East Calgary connector to east Calgary B		3,980
Total large projects	**700**	**77,606**

182. In accordance with its direction in Decision 2012-170, and pursuant to sections 22 and 24 of the *Gas Utilities Act*, subsections 4(a) and (b) of the *Pipeline Act*, RSA 2000, c. P-15 and Section 8(2) of the *Alberta Utilities Commission Act*, SA 2007, c. A-37-2, the Commission established Proceeding ID No. 1995 to address the need for the multi-phase and multi-year UPR project. As a result, all forecast capital expenditures included in ATCO Pipelines' 2013-2014 revenue requirement are to remain placeholders pending the Commission' determination on ATCO Pipelines' UPR plan to construct new pipelines within the transportation utility corridor of Edmonton and Calgary.

4.5.3.34 IT capital expenditures

183. ATCO Pipelines proposed to upgrade its current operating system, Windows XP, to the Windows 7 system, because Windows XP will no longer be supported by the vendor. Similarly, ATCO Pipelines stated that the Oracle E Business (R12) project is required because the vendor will no longer support the existing system. ATCO Pipelines is planning to upgrade current databases by implementing a maintenance management system for enhanced scheduling and tracking of required maintenance activities. ATCO Pipelines is also planning to implement a new pipeline integrity management system in order to consolidate pipeline information into one system and to utilize the system to assist in the assessment of pipeline integrity requirements. IT projects - general includes the development of smaller IT applications or smaller enhancements to existing IT applications. Expenditures are forecast to increase in 2014 for new Oracle modules.

Table 5. IT capital projects

Description		2013 forecast	2014 forecast
IT projects			
MARS enhancements		200	200
Windows 7 Operating System		300	
Maintenance management system		1,100	200
Oracle R12		800	350
Pipeline integrity management system		800	300
	Subtotal large projects	**3,200**	**1,050**
General categories			
	IT - General	550	800
	Total	**3,750**	**1,850**

4.5.3.35 Oracle e-business suite R12 upgrade

184. The Commission has reviewed the business case for the Oracle e-business suite R12 upgrade and is satisfied with ATCO Pipelines' explanation that Oracle R11 will no longer be supported by Oracle. Failure to upgrade the system could negatively impact ATCO Pipelines because payroll and statutory updates will be unavailable after 2014, creating potential payroll and vendor transaction difficulties. The Commission also finds the forecast Oracle e-business suite R12 upgrade capital expenditures of $800,000 and $350,000 in the 2013 and 2014 to be reasonable. This project is approved as filed.

4.5.3.36 Maintenance management system

185. ATCO Pipelines explained that the new maintenance management system using IBM's Maximo asset management enterprise software will replace three existing systems: FOS (facilities operating system), PCRS (process control reporting system), and CAMS (compressor maintenance system).

186. The Commission accepts ATCO Pipelines' justification that investment in the maintenance management system enhances ATCO Pipelines' ability to plan and coordinate maintenance activities in a centralized repository, while simultaneously improving its ability to identify and control safety hazards.

187. Having reviewed the business case for this project, the Commission finds the $1.100 million and $0.200 million forecast cost for 2013 and 2014 respectively, for ATCO Pipelines' new maintenance management system to be reasonable. This project is approved as filed.

4.5.3.37 Pipeline integrity management system

188. ATCO Pipelines submitted a business case to develop an automated pipeline integrity management system that will allow for the integration of all integrity data into a single program. The integrity assessment software will interface with the existing geographical information system (GIS), supervisory control and data acquisition system (SCADA) and various electronic databases that are currently used to store pipeline attribute and integrity inspection data.

189. The Commission has reviewed ATCO Pipelines’ pipeline integrity management system business case and considers such a program, designed to improve the management of integrity data is a prudent expenditure in light of the age of various segments of its pipeline network and the resulting enhanced synergies to integrity data collection, risk assessment, and safety hazards. The Commission finds the ATCO Pipelines’ forecast pipeline integrity management system capital expenditures in the 2013 and 2014 test years to be reasonable. This project is approved as filed.

4.5.3.38 Records management digitization

190. ATCO Pipelines forecast $500,000 in 2014 for the proposed records management digitization which will take ATCO Pipelines’ existing paper work orders and scan the physical files to provide an electronic and microfilm copy. ATCO Pipelines explained that legislation requires ATCO Pipelines to maintain records over the life of its pipeline assets.

191. Having reviewed the business case for this project, the Commission finds that ATCO Pipelines’ forecast records management digitization costs in 2014 are reasonable. In light of this finding and the benefit of the digitized records to potentially to interface with AP’s GIS and maintenance management system, and the enhanced efficiency of an electronic system over an antiquated paper format, ATCO Pipelines’ forecast is approved as filed.

4.5.3.39 Growth

192. Expenditures for growth are forecast to increase during the test years due to the Norma extension pipeline and for facilities required for the Shepard power plant delivery. The Norma extension project is required to provide additional supply to industrial and core market customers in the Edmonton region. The Shepard power plant delivery project is required to provide service to a new power plant being constructed in the Calgary region. ATCO Pipelines requested deferral account treatment for the Shepard project and for all growth projects arising from commercial agreements between NGTL and customers on the Alberta System that may be initiated during the test years.

4.5.3.40 Manawan Lake delivery station

193. The Commission is satisfied that the Manawan Lake delivery station is required to meet the natural gas requirements in the area north of Edmonton with winter peak flow requirements of 8,500 gigajoules (GJ)/day and summer demand of 1,100 GJ/day. The business case also indicated that ATCO Pipelines’ proposed alternative was the least cost alternative and that there was sufficient contractual underpinning to construct the facility as required under NGTL’s investment criteria. Having reviewed the business case for this project, the Commission finds the forecast cost of this capital project to be reasonable and approves the project as filed.

4.5.3.41 Norma transmission pipeline

194. ATCO Pipelines forecast $49.2 million in 2013 and $1.5 million in 2014 for the Norma pipeline extension. ATCO Pipelines explained that the Norma transmission project involves:

- the construction of 40 km of 508 mm pipeline ATCO Pipelines (AP) portion of the project includes 37 km of 508 mm pipeline within the AP Footprint
- a new control station and associated SCADA and telemetry facilities to connect the Norma Transmission Line to AP's existing 508 mm Inland Transmission pipeline.

- TransCanada (TCPL) will be responsible for the construction of a 3 km section of 508 mm pipeline, through the TCPL Footprint, to connect the Norma Transmission line to the Ben's Lake Compressor station.

195. ATCO Pipelines also explained that the Norma project is the least cost alternative and lowest capital requirement while providing incremental supply of 230 terrajoules/day, and an opportunity to reassess the supply and demand situation of the project.

196. The Commission has reviewed the Norma transmission pipeline business case and finds that the project is warranted to meet the temperature sensitive and industrial demand growth. The project also provides the least cost alternative to provide service to the Edmonton area with a cumulative present value cost of service of $80.6 million. Further, ATCO Pipelines received approval from the AUC to construct the Norma pipeline in Decision 2013-223. The Commission finds the Norma pipeline extension forecast capital costs to be reasonable and approves the project as filed.

4.5.3.42 Shepard Energy Centre (SEC or Shepard project)

197. ATCO Pipelines requested that the cost of the Shepard project be granted deferral account treatment because it is part of a growth project arising from the commercial agreement between NGTL and customers.[87] In response to AUC-AP-16 (d), ATCO Pipelines also amended the Shepard project placeholder to $71.881 million from $44.250 million in the test period in accordance with the refiled application ($11.475 million to $13.025 million in 2013 and $32.775 million to $57.856 million in 2014).[88]

198. The UCA noted that the Shepard project is the construction of a large natural gas pipeline to supply a new 800 megawatt generation facility from the high pressure transmission system. Although this project has been presented in multiple applications, and is in ATCO Pipelines' service area, ATCO Pipelines provided a business case rationale for the project as part of IR responses. ATCO Pipelines provided the business case and simultaneously amended its application to increase the forecast cost of the project by 62 per cent. The UCA argued that there is nothing on the record that explains this dramatic 62 per cent cost increase for what appears to be the same project. The UCA suggested that the Commission should deny the incremental cost pending a complete explanation from ATCO Pipelines of project alternatives, including past cost estimates. The UCA recommended that ATCO Pipelines develop an appropriate process to provide the Commission and stakeholders with relevant information in a timely way.[89]

199. ATCO Pipelines explained that it developed the facility requirements in coordination with NGTL in order to optimize the operation of the Alberta System. The project is underpinned by commercial contracts which meet the requirements of the NGTL investment policy. This investment policy has been approved in consultation with all customer groups on the Alberta System. ATCO Pipelines submitted that because the project meets the criteria established under commercial integration of the Alberta System, the request to deny the increased expenditure identified in the approved business case is unwarranted.[90]

87 Exhibit 34.03, AP amended application, Section 2.3, page 13 of 15, lines 6-14.
88 Exhibit 61.03, ATCOPIPE-2322, AUC-AP-11 (g) Attachment 2, Growth Tab.
89 Exhibit 114.01 UCA argument, page 11.
90 Exhibit 101.01, AP rebuttal evidence, page 7, lines 14-22.

200. The UCA disagreed with ATCO Pipelines' assertion that meeting NGTL's investment criteria is sufficient to warrant approval of the SEC forecast because this would unduly fetter the Commission's responsibilities under the *Gas Utilities Act* to set just and reasonable rates and establish a rate base based on reasonable and prudent original costs.[91] If the forecast costs of a project relative to potential alternatives cannot be justified by a business case, there is no way to know whether those costs are just and reasonable, and such costs should not be recovered from customers.

201. The UCA also expressed concern that ATCO Pipelines' explanation in CAPP-AP-58[92] of the increases in the Shepard project costs were the result of a change in the scope of the project associated with the delay in the UPR project. The UCA said that, in principle, if the shifted project components are reasonably required for the Shepard project, and the other aspects of the Shepard project's scope are reasonable, ATCO Pipelines' explanation is acceptable. In practice, however, the Commission has ordered ATCO Pipelines to freeze work on its UPR projects until the completion of Proceeding ID No. 1995. Shifting project components out of the scope of the UPR project and into the Shepard project was a step that the UCA argued should have been undertaken with complete transparency to ensure ATCO Pipelines was not undermining the Commission's directions concerning UPR projects. Given the approach ATCO Pipelines has taken to the disclosure of the Shepard project content, the UCA argued that the Commission should rule that ATCO Pipelines has not justified the requested costs and should instead direct ATCO Pipelines to revise its Shepard project business case to take into account the content of CAPP-AP-58, and refile a business case in the compliance filing with an analysis of alternatives that does not include transfer of UPR components.[93] The UCA argued that the Commission should deny approval of the incremental cost of the Shepard Energy Centre pending a complete explanation from ATCO Pipelines of the project alternatives, including past cost estimates.[94]

202. ATCO Pipelines submitted that it had filed a business case for the Shepard project and its response to CAPP-AP-58 explained in detail the difference in Shepard project costs between the time ATCO Pipelines refiled its application and the time the business case was prepared. ATCO Pipelines argued that the business case clearly explained the need and that the proposed option to provide service is the least cost alternative. As a result, ATCO Pipelines' Shepard project should be approved and the UCA's suggested additional process should be denied.[95]

Commission findings

203. The Commission has reviewed the supporting business case for the Shepard project and is satisfied that the facilities are required to meet the gas delivery requirement at the Shepard Energy Centre. Further, ATCO Pipelines received approval in Decision 2013-302 for the Shepard Energy Centre delivery lateral pipeline, in accordance with Section 17 of the *Alberta Utilities Commission Act*. Although the facilities are required to provide utility service, ATCO Pipelines has not adequately explained the 62 per cent increase in capital costs between the placeholder filed in the refiled application and the business case filed in AUC-AP-16(d) attachment.[96] The Commission considers that the information provided by ATCO Pipelines in

[91] *Gas Utilities Act*, sections 36(a) and 37(1)(a)-(b).
[92] Exhibit 109.01, PDF pages 33-38.
[93] Exhibit 118.02, UCA reply argument, page 11.
[94] Exhibit 114.02, UCA argument, page 12.
[95] Exhibit 112.01, AP argument, page 14.
[96] Exhibit 61.01, PDF pages 137-143.

CAPP-AP-58 is insufficient to warrant an increase to the Shepard project cost from $44.250 million to $71.881 million.

204. Because the Shepard project is an NGTL directed growth capital expenditure, it will receive deferral account treatment. The amount to be included as a placeholder for the purposes of this decision is $44.250 million.

205. As a result, ATCO Pipelines is directed to include the following in its compliance filing:

- an explanation of how the timing delays associated with the UPR proceeding led to a change in scope of the Shepard project and facilities required to serve SEC
- an explanation of the cost difference between the time ATCO Pipelines filed its GRA application and the time ATCO Pipelines filed the business case with respect to specific components of the SEC:
  - the East Calgary B interconnect and Petrogas control facility upgrades now being included in the scope of SEC instead of the UPR Project as the UPR Project is delayed and the SEC project will occur first
  - 2.4 km of the 610 mm East Calgary B pipeline extension now being included in the scope of SEC instead of the UPR project as the UPR project is delayed and the SEC project will occur first
  - Chestermere Lake lateral control station now being included in the scope of SEC instead of the UPR project as the UPR project is delayed and the SEC project will occur first
  - finalized routing of the 508 mm SEC delivery lateral resulted in additional directional drilling
- an explanation of the costs included in the total capital costs of the project, including NGTL's portion
- the underlying cumulative present value cost of service calculation
- further detail with respect to the customer contribution and the incremental cost attributed to meet the customer's requirements

5 Necessary working capital

206. ATCO Pipelines forecast its necessary working capital requirement to be $25,589,000 for 2013 and $28,376,000 for 2014. Its determination of necessary working capital for cash expenses and financial items is supported by a lead-lag study. The current lead-lag study uses 2011 payment patterns to determine expense lags. Calculations are based on the methodology used for the lead-lag study approved in Decision 2003-100.[97]

207. The Commission has reviewed ATCO Pipelines' necessary working capital forecast and supporting lead-lag study and approves the forecast as filed. It is also satisfied that ATCO Pipelines' lead-lag study is consistent with the methodology approved in Decision 2003-100.

[97] Exhibit 34.03, Section 2.4, PDF page 44.

6 Return on rate base

208. In Section 3.1 of the application, ATCO Pipelines requested approval of its return on rate base of $59,619,000 in 2013 and $68,284,000 in 2014. The forecast capital structure is 57.9 per cent debt, 4.1 per cent preferred and 38 per cent common equity ratio for 2013, and 58.4 per cent debt, 3.6 per cent preferred and 38 per cent common equity for 2014.

209. ATCO Pipelines' 2013 total long-term debt is forecast to be $571,830,000 reflecting the issuance of $70,000,000 of new debt at 4.30 per cent. AP's 2014 total long-term debt is forecast to be $651,730,000. This forecast reflects the issuance of $91,000,000 of new debt at 5.00 per cent. The embedded cost of debt in 2013 and 2014 is 5.61 per cent and 5.50 per cent respectively. There will be no new issuance of preferred shares in 2013 and 2014. The embedded cost of preferred shares is 4.77 per cent in 2013 and 4.64 per cent in 2014.[98]

Commission findings

210. In Decision 2011-474, the Commission issued its findings on the Generic Cost of Capital proceeding and set the common equity ratio of 8.75 per cent and return on equity of 38 per cent for 2011 and 2012 for ATCO Pipelines. As detailed in paragraph 168 of Decision 2011-474, the Commission set the allowed return on equity percentage for 2013 at 8.75 per cent on an interim basis.

211. In a letter dated January 29, 2013, the Commission approved the UCA's motion to have ATCO Pipelines' ROE and capital structure considered in the 2013 GCOC proceeding. ATCO Pipelines was directed to refile its application, with its capital structure and ROE revised as placeholders, consistent with ATCO Pipelines' approved capital structure and ROE from Decision 2011-474.[99]

212. Decision 2011-474 was the subject of a review and variance proceeding. At paragraph 39 of Decision 2012-154,[100] which addressed the application for the review and variance of Decision 2011-474, the Commission made the following determination:

> 39. The review panel notes that the Commission sought to have the issues raised by the *Stores Block* decision of the Supreme Court of Canada, including the issue of stranded assets, resolved when the Commission initiated the Utility Asset Disposition Rate Review Proceeding (Proceeding ID No. 20) on April 2, 2008. Following a number of procedural steps, Proceeding ID No. 20 was suspended on November 20, 2008. Given this and the submission of ATCO Utilities, the review panel considers that the issue of stranded assets and who bears the risk in relation to stranded assets should be evaluated in the context of the relevant legislation and case law and therefore expects to either re-initiate Proceeding ID No. 20 or initiate a generic proceeding regarding asset disposition and stranded assets. The Commission will establish this proceeding after the issuance of a Commission decision on the Rate Regulation Initiative (Proceeding ID No. 566). (footnote omitted)

98 Exhibit 34.03, Section 3.1, PDF page 59.
99 Decision 2011-474: 2011 Generic Cost of Capital, Application No. 1606549, Proceeding ID No. 833, December 8, 2011.
100 Decision 2012-154: Decision on Request for Review and Variance of AUC Decision 2011-474, 2011 Generic Cost of Capital, Application Nos. 1608120, 1608122, 1608126, 1608127, 1608129 and 1608136, Proceeding ID No. 1697, June 4, 2012.

213. The Commission has recently released its decision with respect to utility asset dispositions and stranded assets. The Commission has also initiated Proceeding ID No. 2191 regarding the generic cost of capital for 2013. The Commission considers that the outcome of these proceedings may impact both the common equity ratio and the return on equity percentage of ATCO Pipelines for 2013 and/or 2014. Therefore, ATCO Pipelines' common equity ratio of 38 per cent and the return on equity of 8.75 per cent remain approved as placeholders for 2013 and 2014.

6.1 Debt rate deferral account

214. In AUC-AP-103, ATCO Pipelines provides a table of actual interest rates for debt issuances from 2008 to 2012. In CAPP's view, the evidence provided by ATCO Pipelines in Section 3.1 clearly shows that interest costs of new debt are material. Added interest costs at the forecast interest rates are $3 million in 2013, plus an additional $4.55 million in 2014 (assuming issuance on January 1 of each year). CAPP opined that ATCO Pipelines' evidence in AUC-AP-103 shows that ATCO Pipelines has "not been very good at forecasting interest rates".[101] CAPP argued that ATCO Pipelines or ATCO Pipelines' parent company only has control or influence over its interest costs within a very narrow range and that neither ATCO Pipelines nor its parent company has any control or influence over the magnitude of change in the interest rates being forecast by ATCO Pipelines. CAPP submitted that this is another example of ATCO Pipelines gaining short-term financial gain by over-forecasting costs without presenting evidence of long-term benefit to customers that demonstrates interest rates on this new debt would be any different than if the costs had been treated on a flow-through or deferral account basis. CAPP recommended that ATCO Pipelines' interest rate costs for both new and existing debt be treated as actual costs and not as forecast costs. To accomplish this, these costs will have to be trued up each year through a deferral account.[102]

215. The CCA agreed with CAPP that ATCO Pipelines has historically over-forecast debt costs and therefore deferral account treatment for debt costs is appropriate.[103] The CCA submitted the return and capital structure as refiled are appropriate and should remain in place until the 2013 Generic Cost of Capital Proceeding is finalized.

216. ATCO Pipelines noted that, at the time the 2010-2012 revenue requirements were being negotiated, it had issued debt in 2009 at interest rates of 6.215 per cent and 6.5 per cent, which were higher than the 2008 interest rates of 5.563 per cent and 5.580 per cent.[104] ATCO Pipelines said that at the time the interest rate forecast for the 2010-2012 revenue requirement negotiations was made, the only actual information available to ATCO Pipelines was the interest rates for 2008 and 2009. ATCO Pipelines submitted that CAPP's argument does not factor in the significant amount of uncertainty that existed in the financial markets during the time the interest rate forecast for the 2010-2012 revenue requirement negotiations were made and that CAPP's hindsight analysis of this forecast is inappropriate. ATCO Pipelines submitted that its interest rate forecast of 7.0 per cent was reasonable and deferral account treatment is not appropriate, particularly in light of the extraordinary circumstances affecting financial markets at the time the forecast was prepared. ATCO Pipelines also noted that the 7.0 per cent interest rate forecast for

[101] Exhibit 111.01, CAPP argument, page 13, paragraph 53.
[102] Exhibit 111.01 CAPP argument, pages 12-13.
[103] Exhibit 115.01 CCA reply argument, page 4.
[104] Exhibit 107.01, AUC-AP-103.

new debt issues for the 2010-2012 revenue requirement settlement was the product of a negotiated process which incorporated gives and takes on the part of all parties involved, and that the settlement was considered and approved by the Commission as a whole.[105]

Commission findings

217. In AUC-AP-20,[106] ATCO Pipelines explained that its forecast debenture rates of 4.3 per cent in 2013 and 5.0 per cent in 2014 were determined based on combining the underlying Government of Canada Bond Rate and credit spread related to CU Inc. ATCO Pipelines receives debt financing from CU Inc. which mirrors debt down to individual utilities. The following tables show the forecast 10-year Canada Bond rate provided by financial institutions, including an adjustment for long bond differential (because there is no consensus forecast for Canada Bonds beyond 10 years), credit spread based on CU Inc.'s prior debt issuances, and resulting forecast debenture rates.

Table 6. Long Canada bond rate – bank forecast, consensus forecast, credit spreads, and debenture rate

Long Canada bond rate - bank forecasts(%)		
	2013	**2014**
BMO	2.35-2.65	3.1
RBC	2.55-2.95	n/a
Scotia	2.40-3.10	3.35-3.65
TD	2.60-3.10	3.20-3.50
Range(low/high)	2.35-3.10	3.10-3.65
Average of range	2.73	3.38

Long Canada bond rate consensus forecast(%)		
	2013	**2014**
Consensus forecast (10 year)	2.2	2.7
Average 10 year/long bond differentia l(Oct/2012)	0.59	0.59
Implied long Canada bond rate	2.79	3.29

Long Canada bond rate consensus forecast(%)		
	2013	**2014**
Bank forecast range (low/high)	2.35-3.10	3.10-3.65
Average bank range	2.73	3.38
Implied consensus forecast	2.79	3.29
Range utilized in forecast	2.40-3.10	3.20-3.70

105 Exhibit 117.01, AP reply argument, page 29.
106 Exhibit 61.01.

Mid-point of the range used	**2.75**	**3.45**

Credit spreads(basis point spreads)	
Range of indicative spreads from Oct 2011 to Aug 2012*	134-161
CU Inc. October 2011 30yr issue	160
CU Inc. October 2011 50yr issue	165
CU Inc. September 2012 30yr issue	147
CU Inc. September 2012 50yr issue	149
CU Inc. November 2012 40yr issue	150
Range used in forecast	145-165
Mid-point of the range used	**155**

	2013	**2014**
Long Canada bond rate	2.75%	3.45%
Credit spread	1.50%	1.55%
Debenture rate	**4.30%**	**5.00%**

218. The Commission has reviewed the method that ATCO Pipelines employed with respect to its forecast debenture rate, and is satisfied that its forecast debenture rate is a reasonable when compared against the government of Canada bond rates and past CU Inc. credit spreads. Accordingly, the Commission approves ATCO Pipelines’ forecast debenture rates and debt costs, as filed.

219. With respect to the issue of ATCO Pipelines’ history of over-forecasting debt rates, ATCO Pipelines, negotiated its revenue requirement for 2008 to 2009 and 2010 to 2012. This reduces the force of any argument based on variances existing between historical actual and forecast debt rates. For 2008 to 2009, ATCO Pipelines’ revenue requirement was approved pursuant to a “black box” negotiated settlement which did not permit a comparison between forecast and actual debt rates. ATCO Pipelines explained that the 7.0 per cent debt rate used in the 2010 to 2012 revenue requirement settlement was based on market conditions in 2009 which were significantly influenced by the 2008 financial crisis, but varied from the rates for CU Inc. debt issuances from 2009-2012 which ranged from 6.5 per cent to 3.857 per cent.[107]

220. ATCO Pipelines was at risk for forecast errors in this item during these test periods, which interveners argued resulted in actual debt interest rates being below forecast. The evidence on the record regarding 2009-2012 demonstrates s that ATCO Pipelines’ forecast debt rates have been above actual debt rates by a material amount. This indicates an ongoing tendency to err on the side of overestimation to protect the utility and customers from likely interest rate forecast

[107] Exhibit 107.01, AUC-AP-103.

errors and uncontrollable risk, the Commission finds that a deferral account for debenture rates should be established for the test period, consistent with Decision 2013-358.[108]

221. Accordingly, the Commission directs ATCO Pipelines to establish a deferral account for debenture rates for the years 2013 and 2014 in its compliance filing to this decision.

7 Operating and maintenance costs

222. ATCO Pipelines forecast operating and maintenance (O&M) costs of $61,247,000 for 2013 and $65,233,000 for 2014.

Table 7. ATCO Pipelines O&M expenses

	2011 actual	2012 estimate	2013 forecast	2014 forecast
Transmission	45,242	29,986	32,380	36,432
Administration and general	23,974	26,575	31,565	31,504
Operating & maintenance - corp.	69,216	56,561	63,945	67,936
Less: non-utility O and M	1,143	1,312	2,698	2,703
Operating & maintenance - utility	68,073	55,249[109]	61,247	65,233

7.1 O&M transmission expenses

223. Transmission function costs have been split between labour and supply costs. ATCO Pipelines forecast transmission labour expenses of $16.202 million and $17.418 million in 2013 and 2014 respectively. ATCO Pipelines explained that the forecast transmission labour expenses are higher due to annual labour cost increases and growth in full time equivalent (FTE) positions. ATCO Pipelines forecast increases to transmission supplies for the 2013 and 2014 test years of $16.178 million and $19.014 million respectively as compared against its 2012 estimate of $15.880 million. ATCO Pipelines explained that transmission supplies costs are forecast to increase largely due to increases in contract services, utilities, company vehicle, fringe benefits and material, equipment and tools.

Commission findings

224. In response to information requests, ATCO Pipelines explained the underlying drivers of its increase in transmission supplies expenses over the test years. In AUC-AP-26(a-b), ATCO Pipelines provided a breakdown of contract services, forecast expenses, and historical costs from 2008-2012, which showed that its actual costs exceeded its forecast for contract services. Further, ATCO Pipelines' forecast of $300,000 in 2013 and $843,000 in 2014 for contract services is the result of a new landowner and emergency services provider's engagement programs. The Commission considers that ATCO Pipelines' justification for an increase in contract service costs due to an increase in pipeline relocation requests and pipeline integrity related work appears reasonable. ATCO Pipelines also forecast an increase in fringe benefits of 5.0 per cent for 2013 and 1.0 per cent in 2014. The Commission considers ATCO Pipelines' forecast to be reasonable after reviewing its forecast FTEs and considering its explanation that its

[108] Decision 2013-358: ATCO Electric Ltd. 2013-2014 Transmission General Tariff Application, Application No. 1608610, Proceeding ID No. 1989, September 24, 2013.
[109] Exhibit 61.01, AUC-AP-49a) attachment, page 13 of 31, 2012 O&M actual was $54.410 million.

fringe benefit expense forecast for Employment Insurance, Workers Compensation, Canada Pension, and Post-Employment benefits is prepared on the basis of these two factors.

225. With respect to ATCO Pipelines' transmission labour expense forecast of $16.202 million in 2013 and $17.418 million in 2014, ATCO Pipelines explained that the primary drivers of the increases in transmission labour expenses are as follows:

- Gas control expenses increased by 47 per cent in 2013 over the 2012 estimate and another 4.5 per cent in 2014 because of the turnover of experienced staff requiring additional FTEs to replace staff, and more supervisory staff to assist less experienced replacement staff.
- Connection relations expenses increased by 14.8 per cent in 2013 over the 2012 estimate and an additional 5.0 per cent in 2014 because of additional staffing needed to communicate with customers on matters of general operational and service inquiries, outage coordination, and pipeline maintenance planning in its service territories.
- Engineering and planning expenses are forecast to increase by 33.5 per cent in 2013 as compared with the 2012 estimate and an additional 9.1 per cent in 2014 and includes labour costs incurred by engineering and planning that are not related to capital projects. These costs are increasing to meet the growing demand of the ATCO Pipelines pipeline integrity program. As a result, two integrity and risk engineers, a pipeline integrity clerk, and a mapping and records supervisor are planned to be added in 2013. Also in 2013, an additional land agent is planned to be added to address increasing land owner and aboriginal community consultation requirements.
- Pipeline operations expenses are forecast to increase in 2013 by 14.9 per cent in 2012 over the 2012 estimate and an additional 9.09 per cent in 2014 includes labour costs incurred in the operation and maintenance of ATCO Pipelines' pipelines. ATCO Pipelines explained that these costs have increased for pipeline patrol, leak surveys and leak repairs, crossing inspections, pipeline locates, valve maintenance, cathodic protection surveys, right of way brushing, and travel, and staff turnover due to tight market conditions and that turnover through retirement will result in new hires in junior level positions and more supervisory positions.
- Safety and training includes labour costs for internal safety and environmental expertise, preparation and maintenance of procedures, and provision of training. ATCO Pipelines forecast increase of 10.9 per cent in 2013 over the 2012 estimate and an additional 16.5 per cent in 2014.
- Variable pay is forecast to increase by 275 per cent in 2013 compared to 2013 estimate and another 5.3 per cent in 2014. Variable pay program (VPP) expenses are addressed in Section 7.7 of this decision.

226. The Commission considers that ATCO Pipelines' forecasts with respect to engineering and planning costs are reasonable in light of its increased pipeline integrity demands.[110]

227. The Commission accepts ATCO Pipelines' explanation of its gas control cost increases given the increase in the number of field variables being monitored by gas control has increased from 13,800 in 2009 to 17,600 in 2013, which is an increase of 28 per cent. Further, the number

[110] AUC-AP-24.

of SCADA alarms per month acted on by gas control has increased from 49,500 in 2010 to 66,800 in 2012, an increase of 35 per cent.[111] ATCO Pipelines also explained that the gas control costs increase in the test years is primarily the result of the additional of supervisory and support positions. In aggregate, the cost of new positions is $413,000 in 2013 and $504,000 in 2014.[112] ATCO Pipelines' increase in required FTEs is underpinned by the historical gas control requirements.

228. The Commission finds that ATCO Pipelines' forecast connection relation expenses are reasonable based on ATCO Pipelines' explanation of the added responsibilities under integration. With integration, ATCO Gas is required to enter into approximately 1,100 delivery point specific contracts for transportation service on the Alberta System, whereas, pre-integration there were only two contracts for transportation service (one North, one South) with ATCO Pipelines. This more complex process is being facilitated by the ATCO Pipelines' connection relations group.[113]

229. The Commission has reviewed the underlying drivers of the transmission labour expenses and approves ATCO Pipelines transmission labour O&M costs, subject to any adjustments arising from issues addressed later in this decision.

7.2 Administration and general O&M expenses

230. ATCO Pipelines forecast administration and general O&M expenses of $28,867,000 in 2013 and $28,801,000 in 2014. Included within its administration and general expenses are affiliate services costs of $9.529 million in 2013 and $8.812 million in 2014, regulatory account costs for reserve for injuries and damages forecast of $200,000 for both test years, hearing costs of $1.15 million for both test years, and the AUC's administration fee of $2.5 million for both test years. The cost related to affiliate services and regulatory accounts are addressed in Section 7.5 of this decision. ATCO Pipelines' explanation of the underlying drivers of administration and general increases are provided in the following paragraphs.

231. Labour expenses are forecast to increase by $1,174,000 in 2013 primarily due to staff additions in financial services and corporate communications, annualization, and general labour cost increases. In addition, ATCO Pipelines' labour costs increased in 2013 due to the variable pay program. Labour expenses are forecast to increase by $609,000 in 2014 primarily due to staff additions in financial services, annualization, and general labour cost increases.

232. Supplies expenses are forecast to increase by $2,867,000 in 2013 primarily due to the inclusion of non-utility costs related to the disallowed COLA adjustment, increased staff and training expenses and general cost increases, company membership in Canadian Pipeline Research International which is and was partially offset by decreased legal and consulting costs. Supplies expenses are forecast to increase by $47,000 in 2014 primarily because of reduced recovery for previously seconded employees and general cost increases, which is partially offset by reduced legal and consulting fees.

233. With respect to ATCO Pipelines' forecast administration and general expenses, ATCO Pipelines provided an explanation in AUC-AP-28(a-b) detailing the percentage change by year

111 Exhibit 62.01, UCA-AP-43(a).
112 Exhibit 61.01, AUC-AP-22(f).
113 Exhibit 61.01, AUC-AP-23(c).

and the reason for an increase/decrease in forecast by prime account. In particular, advertising (prime account 701) has been forecast to increase by 14.1 per cent in 2013 due to increased association membership costs and community relations and 6.2 per cent in 2014 due to annual membership costs). Administrative labour (prime account 721) increased by 18.7 per cent in 2013 and 8.2 per cent in 2014 because of staff additions in financial services and corporate communications, annualization of 2012 staff additions, and labour cost increase including VPP. Employee benefits (prime account 725-supplies) increased by 117.1 per cent in 2013 due to the inclusion of the non-utility COLA adjustment, and other administration and general (supplies-prime account 728) increased by 20.9 per cent due to an increase in AUC administration fee, rate case expenses, and injuries and damages.

234. The Commission has reviewed the identified cost increases in ATCO Pipelines' administration and general O&M expenses and finds that the forecasts are reasonable subject to the discussion of specific O&M issues below.

7.2.1 Annualization factor

235. The CCA argued that ATCO Pipelines provided no insight on the value annualization provides in accounting for increases in administration and general labour costs and should be directed to explain how the use of an annualization factor respecting administration and general labour provides any benefit in controlling costs attributable to the service provided to residential customers.

236. ATCO Pipelines argued that, this stage of the proceeding, the CCA's request for more information with respect to annualization, community relations program and association membership costs at should be dismissed by the Commission.[114]

237. The Commission finds that the inclusion of an annualization factor within ATCO Pipelines' forecast O&M expense is reasonable to reflect the full impact of staff additions from a prior year when those hires full costs were not included in the prior year's forecast because of the time of hiring.

7.2.2 Financial services and communication expenses

238. Considering that ATCO Pipelines adopted IFRS reporting as of January 1, 2011, the CCA submitted that it would seem that the necessary addition in labour required to address the increased complexity and IFRS reporting requirements would have already been factored in for years 2011 and 2012. It is unclear to the CCA why ATCO Pipelines now requires an additional 26.9 per cent in administrative labour costs for the years 2013 and 2014 for administering the complexities of IFRS reporting which it is has been doing for the past two years.[115] The CCA also took issue with ATCO Pipelines' acknowledgment that part of its increase in labour is due to "a reduction in professional staff overtime." The CCA argued that while a marginal increase in labour cost might be expected with adding headcount, some percentage of that increase would be offset by the reduction of overtime costs of professional employees which are more expensive than normal salary costs.[116]

[114] Exhibit 117.01, AP reply argument, page 18.
[115] Exhibit 113.01, CCA argument, page 19.
[116] Exhibit 113.01, CCA argument, page 19.

239. The CCA also questioned the underlying drivers of ATCO Pipelines' 18.7 per cent forecast increase in administrative labour ($1.174 million) from 2012 to 2013 and an additional increase of 8.2 per cent from 2013 to 2014. Specifically, the CCA noted the increase in the corporate communications component of administrative labour. The CCA also added that ATCO Pipelines provided no insight on the individual costs of its target zero initiative, damage prevention activities, and communications that promote an understanding of the integrated Alberta System.[117] The CCA also observed that the Commission has previously disallowed costs associated with the corporation communications function where such costs are not deemed necessary in providing service to residential customers.[118] Based upon past Commission findings, the CCA submitted that AP should provide a detailed breakdown of the cost of each program attributable to the increase in the corporate communications function as well as how these programs add value to the provision of service to residential customers.

240. ATCO Pipelines argued that its professional staff is not paid overtime. Therefore, there is no basis for the CCA's statement on the reduction of overtime costs for professional employees.[119] Financial service costs have increased largely because increased staffing associated with IFRS and a reduction in staff overtime.[120]

Commission findings

241. The Commission recognizes that IFRS requires adjustments to deferral accounts, depreciation, capitalization of costs, and other expense items. Further, AP is required to produce IFRS compliant financial statements and utility financial statements which adds to accounting and financial complexities. The Commission also acknowledges that ATCO Pipelines' increase in capital programs is also driving further financial services requirements. As a result, ATCO Pipelines' forecast costs associated with financial services are approved as filed.

242. With respect to the CCA's concern that ATCO Pipelines has not adequately justified the increase in corporate communication costs, the Commission considers that the underlying driver of these costs is improved communication on safety and damage prevention activities. The Commission supports initiatives that are designed to improve safety and considers ATCO Pipelines' justification of the increase in such costs to be reasonable. Accordingly, ATCO Pipelines' forecast corporate communication costs are approved as filed.

7.2.3 Annual membership expenses

243. The CCA also raised questions on the accuracy of the forecasts for the various administration and general – supplies accounts. In its response to AUC-AP-28(a),[121] ATCO Pipelines provided a breakdown of administration and general – supplies expenses which revealed that in 2013 advertising - supplies expenses increased by 14.1 per cent, employee benefits – supplies expense increased by 117.1 per cent, and other administration and general – expenses increased by 20.9 per cent. ATCO Pipelines attributed these increased expenses to increased association membership costs and community relations, the inclusion of disallowed COLA adjustment pension costs, increased staff and training expenses and general cost

117 Exhibit 113.01, CCA argument, page 20.
118 Decision 2013-111, paragraph 49.
119 Exhibit 117.01, AP reply argument, pages 18-19.
120 Exhibit 61.01, AUC-AP-29.
121 Exhibit 61.01, PDF page 174.

increases, and company membership in Canadian Pipeline Research International.[122] The CCA recommended that the AUC direct ATCO Pipelines to provide detail into how it forecast costs for both its community relations program and its proposed increases in association membership costs.

244. ATCO Pipelines argued that the CCA's request for more information with respect to annualization, community relations program and association membership costs at this stage of the proceeding should be dismissed by the Commission.[123] With respect to the annual membership cost for Pipeline Research Council International, this expense is included in the special services prime account (722) and not the advertising prime account (701). Therefore, it the CCA's analysis and conclusions are not valid.[124]

Commission findings

245. ATCO Pipelines' response to CAPP-AP-50(b)[125] explains the benefit associated with its annual membership costs for Pipelines Research Council International:

> The Pipeline Research Council International (PRCI) is the global leader in collaborative pipeline research whose membership includes other leading pipeline operators from around the world. The main objective of the PRCI is to direct research into areas that enhance safety, reliability, and productivity of the pipeline industry. Membership provides AP with an ability to promote pipeline integrity research interests by leveraging its membership fees into projects that are supported by other members with similar research needs. AP also benefits from having access to the PRCI's research library (which provides findings on such topics as pipeline inspection and repair methods that AP may evaluate to improve its integrity programs).

246. The main objective of the research council is to direct research into areas that enhance safety, reliability, and productivity of the pipeline industry and that aligns with the interest of customers. As a result, ATCO Pipelines' forecasts annual membership cost of $150,000 for 2013 and $154,500 for 2014 is approved.

7.2.4 Escalation of O&M expenses and statistical reporting metrics

247. CAPP submitted that certain components of ATCO Pipelines' O&M costs are increasing at a very high rate. Pipeline operations costs are forecast to increase from $5.3 million in 2011 to $8 million in 2014, which is a 51 per cent increase. Overall transmission labour costs are forecast to increase by 31 per cent over the same period. Furthermore, in the post-integration period ATCO Pipelines was expected to create permanent O&M cost savings. However, O&M costs are forecast to increase by 18 per cent bringing total O&M costs almost to the 2011 pre-integration level. Despite staff reductions caused by integration, ATCO Pipelines' full time equivalent positions increased as of December 31 in each year post-integration: 341.9 FTEs in 2010, 371.4 FTEs in 2011 and 383.6 FTEs in 2012. CAPP argued that this is not the net reduction

[122] Exhibit 113.01, CCA argument, page 21.
[123] Exhibit 117.01, AP reply argument, page 18.
[124] Exhibit 117.01, AP reply argument, page 19.
[125] Exhibit 63.01.

projected to come out of integration. Shippers have yet to see any demonstration of the net savings that justified integration.[126]

248. Given the dearth of information provided by ATCO Pipelines with respect to its O&M costs, CAPP recommended that the Commission limit ATCO Pipelines' allowed O&M expenditures for 2013 and 2014 to cost increases that take into account greater productivity and provide ATCO Pipelines an incentive to be more productive. CAPP also recommended that the Commission direct ATCO Pipelines to provide, on an annual basis, statistics that measure its cost effectiveness. As a starting point, CAPP would suggest that ATCO Pipelines provide statistics similar to the measures requested by CAPP in CAPP-AP-53(i)[127] which are statistics required of National Energy Board regulated companies in their annual surveillance reports.[128]

249. ATCO Pipelines submitted that under Alberta System Integration, ATCO Pipelines and NGTL own and operate defined sections of the Alberta System, and ATCO Pipelines no longer has the ability to calculate throughput on the ATCO Pipelines portion of the Alberta System because custody transfer quality measurement between NGTL and ATCO Pipelines has been removed, bypassed, or not included in the scope of new construction. ATCO Pipelines' inability to provide throughput information was acknowledged by the Alberta Energy Resource Conservation Board when it exempted ATCO Pipelines from measuring and reporting volumetric activities at the interconnections between ATCO Pipelines and NGTL.[129]

Commission findings

250. With respect to CAPP's concern that ATCO Pipelines' O&M expenses are increasing excessively and reducing the expected benefits of Integration, CAPP fails to consider the underlying cost drivers, such as compliance with IFRS requirements and enhanced pipeline integrity initiatives. In light of CAPP's argument that customers have failed to see the permanent cost savings expected from integration, ATCO Pipelines is directed in its next GRA to provide a detailed explanation of all cost savings associated with Integration and any new costs resulting from Integration.

251. The Commission also accepts ATCO Pipelines' explanation that it is no longer able to provide statistics similar to those required by companies regulated by the National Energy Board regulated in their annual surveillance reports.

7.3 Labour cost increases, inflation, vacancies

7.3.1 Inflation – labour

252. ATCO Pipelines has forecast labour cost increases in its 2013 and 2014 O&M expense of 3.0 per cent for in-scope (Natural Gas Employee Association) employees in 2013, the final year of a two-year collective agreement ending December 31, 2013 and 3.5 per cent in 2014 consistent with recent Alberta wage settlements. The Commission finds that ATCO Pipelines' forecast costs increase for in-scope labour employees for 2013 and 2014 is reasonable when compared against the Alberta wage settlements.[130]

126 Exhibit 111.01, CAPP argument, pages 10-11.
127 Exhibit 109.01 PDF page 15.
128 Exhibit 111.01, CAPP argument, page 11.
129 Exhibit117.01, AP reply argument, page 19.
130 Exhibit 34.03, PDF page 35 and UCA AP-57.

253. ATCO Pipelines also forecast an increase for out-of-scope labour costs of 5.0 per cent for 2013 and 5.5 per cent for 2014. The forecast cost increase reflect cost of living, salary progression, promotion, performance and market adjustments, as well as management's estimate of the level of increase required to address changing demographics, and attract and retain staff in the current Alberta market.

254. With respect to out-of-scope employees, ATCO Pipelines filed evidence from Mercer (Canada) Limited (Mercer) that the annual aggregate salary increases for non-unionized employees will be approximately 4.5 per cent for 2013 and range from 4.0 per cent to 4.5 per cent for 2014.[131] Attachment 2 of the Mercer Report[132] showed that ATCO Pipelines in 2013 was 1.0 per cent below the market median of the comparators, 6.0 per cent below for target total cash,[133] and 17 per cent below for target total direct.[134]

255. Based on the evidence provided by Mercer, the Commission considers ATCO Pipelines' forecast labour costs increase of 5.0 per cent in 2013 and 5.5 per cent in 2014 to be reasonable, subject to any impact that arises from Section 7.7 related to VPP.

256. ATCO Pipelines also included in its O&M labour forecast a vacancy rate of 3.5 per cent. In AUC-AP-3(d),[135] ATCO Pipelines provided ATCO Pipelines' actual vacancy rates from 2008 to 2012 of 6.1 per cent, 3.6 per cent, 6.5 per cent, 6.2 per cent, and 4.4 per cent respectively. Based on ATCO Pipelines' historical vacancy rates, the Commission considers that a vacancy rate based on a five-year average is more reflective of past experience. The Commission approves a vacancy rate of 5.36 per cent and directs ATCO Pipelines to adjust its vacancy rate and its impact on ATCO Pipelines' revenue requirement in its compliance filing.

7.3.2 Inflation – supplies

257. ATCO Pipelines used a supplies inflation rate of 3.0 per cent for 2013 and 2014 and applied the inflation rate to supplies accounts where specific cost increases could not be estimated. ATCO Pipelines explained in UCA-AP-59(a) that the supplies inflation rate was higher than the Alberta consumers price index due to the impact of contract services which are labour based.

258. The inflation factor used by ATCO Pipelines for O&M supplies is higher than the Alberta CPI, however the higher figure is a result of taking into account the labor impact of contract services on supplies. The Commission finds this treatment reasonable, noting that the Alberta Government Economic Outlook Budget 2012 provided the following key indicators that are consistent with ATCO Pipelines' inflation forecast for supplies:[136]

131 Exhibit 42.04 Attachment 1, ATCO Pipelines Salary Increase letter from Mercer.
132 Exhibit 42.02 Attachment 2-ATCO Pipelines Employee Compensation Review, page 6.
133 Target total cash compensation (sum of base salary, target short-term incentives and other nonguaranteed cash awards, if any).
134 Target total direct compensation (sum of target total cash compensation and the expected value of long term incentives, if any).
135 Exhibit 61.01.
136 Exhibit 34.03, PDF page 8.

Table 8. Alberta economic inflation indicators

Alberta economic assumptions (% change)				
	2011 actual	2012 forecast	2013 forecast	2014 forecast
Nominal economic growth (Est.)	8.7	7	7.7	6.7
Real economic growth (Est.)	3.5	3.8	3.8	3
Employment	3.8	2.7	2.3	2.1
Population	1.6	1.8	1.8	1.8
Average weekly earnings	4.7	4.2	4.1	4.1
Alberta consumer price index	2.4	2.5	2.3	2.3

259. Given the in-scope inflation of 3.0 per cent and 3.5 per cent for 2013 and 2014, and the out-of scope inflation rate of 5.0 per cent and 5.5 per cent for 2013 and 2014, a 3.0 per cent inflation rate for supplies appears to be reasonable and is approved.

7.4 Full-time equivalents

260. ATCO Pipelines' number of permanent positions was 342 at the start of 2011 and is estimated to be 384 at the end of 2012. Growth in permanent positions is forecast to increase to 410 for 2013 and 415 in 2014. In general, the actual and forecast additions to permanent positions are the result of a large capital program, new financial reporting and system requirements, code and compliance requirements, and succession planning. Over the next five years, ATCO Pipelines forecasts that 20 per cent of all employees will be eligible to retire and approximately 15 per cent are expected to retire.

261. In AUC-AP-32(b-c),[137] ATCO Pipelines provided a breakdown by O&M prime account of the primary drivers for each new position:

Table 9. ATCO Pipelines 2013 and 2014 forecast new positions by prime account

CP Capital Program
FR Financial Reporting and System Requirements
CC Code and Compliance Requirements
SP Succession Planning
All All of the above

Prime	2013 New Positions	Status as of April)	CP	FR	C	SP	All
660	SCADA Technician	To be filled July 2013			X		
660 / 665 / 667 / 20%-	Transmission Operator	To be filled May 2013			X		
660 / 75%-Capital	Clerk E, Pipeline Integrity	Position filled	X				
Capital	Clerk E, Records	Position filled	X				
660 / 75%-Capital	Clerk D, Purchasing	Position filled	X				
660 / 665 / 50%-Capital	Integrity & Risk Engineer (2)	Position filled			X		
660	Standards & Environment Engineer	Position filled			X		
Capital	Project Leader, Process Control	To be filled Sept 2013	X				
660 / 665 / 75%-Capital	Project Leader, Pipeline Integrity	Position filled	X				
721 / 50%-Capital	Accountant, Fixed Assets Planning	To be filled Sept 2013		X			
721	Supervisor, Operational Planning	Position filled		X			
721 / 20%-Capital	Financial Systems Analyst/Account			X			
721	Operations & Maintenance Analyst	Position filled		X			

137 Exhibit 61.01.

Prime	2013 New Positions	Status as of April)	CP	FR	C	SP	All
721	Corporate Communications Advisor	Position filled					X
660 / 50%-Capital	Pipelines System Representative	Position filled				X	
Capital	Land Agent	To be filled July 2013	X				
660	Fleet Coordinator	To be filled June 2013			X		
660	Senior Leader (2)	To be filled July 2013					X
660 / 90%-Capital	Supervisor, GIS & Mapping	Position filled	X				
665	Gas Control Training Coordinator	To be filled Aug 2013				X	
665	Group Leader, Gas Control	To be filled May 2013				X	
Capital	Commissioning Coordinator	Position filled	X				
660 / 50%-Capital	Damage Prevention Coordinator (2)	To be filled Sept 2013			X		

Prime	2014 New Positions		CP	FR	C	SP	All
660 / 50%-Capital	Operations Engineer (2)	To be filled Jan 2014			X		
721	Financial Services Supervisors (2)	To be filled April 2014				X	
660 / 30%-Capital	Safety Coordinator	Position filled			X		

262. The new hires forecast for 2013 and 2014 align with ATCO Pipelines' investment in integrity management initiatives, IFRS compliance reporting, safety and damage coordination and communication, capital investment, and succession planning. Based on a review of the identified drivers and the justification for the new positions, the Commission approves ATCO Pipelines' forecast increase in positions/FTEs for the 2013 and 2014 test years.

7.5 Affiliate costs

263. Under administration and general O&M expenses, ATCO Pipelines has forecast affiliate service costs of $9,529,000 in 2013 and $8,812,000 in 2014. Of the forecast affiliate service costs, $5,563,000 and $4,473,000 in 2013 and 2014 respectively related to ATCO Group costs. ATCO Group costs are forecast to increase by $206,000 in 2013 primarily due to general cost increases. However, ATCO Group costs are forecast to decrease by $802,000 in 2014.[138]
In AUC-AP-31 (b),[139] ATCO Pipelines provided a breakdown of affiliate services O&M administration general costs.

138 Exhibit 34.03, AP refiled application.
139 Exhibit 61.01.

Table 10. ATCO Pipelines affiliate services – O&M administration general

Affiliate Services ($000) - O&M administration general				
	2011 actual	2012 estimate	2013 forecast	2014 forecast
ATCO Gas				
Rent and parking	579	(2)	-	-
Reprographic and mail service	111	120	112	116
Financial services	9	10	10	10
Special events	6	4	6	7
	705	**132**	**128**	**133**
ATCO I-Tek				
IT-services	**3,702**	**3,926**	**3,838**	**3,936**
ATCO Energy Solutions				
Cost recoveries	**(25)**	**-**	**-**	**-**
ATCO Group				
Corporate office costs	3,351	3,457	3,614	2,774
Corporate signature rights	750	750	750	750
Rent and parking	270	906	928	940
Corporate aircraft	160	223	235	238
Facilities management	24	21	36	41
	4,555	**5,357**	**5,563**	**4,743**
Total	**8,937**	**9,415**	**9,529**	**8,812**

264. In AUC-AP-31(c),[140] ATCO Pipelines explained that the forecast cost increases in 2013 for ATCO Group inter-affiliate services is primarily due to inflation. The lower costs in 2014 are a result of higher capital expenditures in ATCO Electric, impacting the allocation percentages.

265. ATCO Pipelines, a part of ATCO Gas and Pipelines Ltd., together with ATCO Electric Ltd., are wholly-owned subsidiaries of CU Inc., which in turn is a wholly-owned subsidiary of Canadian Utilities Limited. Canadian Utilities Limited is a subsidiary of ATCO Ltd. ATCO Ltd. uses a cost allocation formula methodology to allocate certain corporate office costs of ATCO Ltd., Canadian Utilities Limited, and CU Inc. (corporate costs) to its subsidiary companies. As a result of Decision 2013-111, capital expenditures will be replaced by labour in the allocation formula, consequently costs will change. Consequently, ATCO Pipelines submitted ATCO Group costs as a placeholder pending completion of the Corporate Costs compliance proceeding (Proceeding ID No. 2594).

266. ATCO Pipelines has forecast an I-Tek O&M expense placeholder of $3.838 million in 2013 and $3.936 million in 2014 pending the Commission’s determination of unit prices in

140 Exhibit 61.01.

ATCO's I-Tek benchmarking process (Evergreen II, Proceeding ID No. 240). ATCO I-Tek costs are forecast to decrease by $88,000 in 2013 primarily because of the decommissioning of the STARS distributed application in 2012, but partially offset by increased file server storage costs and two new hosted applications, one of which is for the maintenance management system and the other is for the pipeline integrity management system. The 2014 increase of $98,000 is primarily ascribed to general cost increases.[141]

267. In AUC-AP-35(d),[142] ATCO Pipelines explained that it amended its refiled application to change its rent placeholder forecast of $14.50 per square foot for the ATCO Centre in Calgary to $20 per square foot consistent with the Commission's ruling on ATCO Gas' review and variance (R&V) of Decision 2011-450 (Proceeding ID No. 1698).[143]

268. ATCO Pipelines' forecast revenue requirement increases by $147,000 in both 2013 and 2014 by the disallowed rent which ATCO Pipelines originally filed as a placeholder pending a decision on ATCO Gas' R&V.

269. AP noted that the results of ATCO Gas' R&V related to office rent were:

> 72. In its R&V Application, ATCO Gas submitted that the hearing panel made an error of fact when it found that ATCO Gas was paying $14.50 per square foot for its Calgary office lease, because ATCO Gas's prior lease rate was $16.00 per square foot. On this basis, the review panel granted a review and variance of this issue as it was unclear whether the hearing panel was aware that ATCO Gas's existing rental rate was $16.00 per square foot.
>
> 73. In its submissions following the release of Decision 2012-156, ATCO Gas submitted that the $16 per square foot lease rate is irrelevant and that the finalized lease rate of $20 per square foot should be used. It appears to the review panel, that ATCO Gas had requested the establishment of a deferral account for its rental rate in its original 2011-2012 GRA application. The establishment of a deferral account was denied by the hearing panel in Decision 2011-450. Further, a review and variance on the issue of a deferral account by the review panel for the Calgary office lease was not granted in Decision 2012-156. As stated above, the review panel's duty in this review and variance proceeding is to determine whether the forecast amount awarded by the hearing panel should be revised. Review and variance proceedings should not amount to an opportunity to true-up forecasts to actuals, similar to the mechanism of a deferral account. To allow the actual $20 per square foot requested by ATCO Gas in this review and variance

141 Exhibit 34.01, PDF page 83.
142 Exhibit 61.01.
143 Exhibit 34.03, AP refiled application, PDF page 107.

> proceeding would amount to the same treatment that would be given in a deferral account. In the variance portion of this review and variance proceeding, the review panel learned that the real estate company with which ATCO Gas was negotiating is a company affiliated with ATCO Gas. In these circumstances, deferral account treatment is completely unjustified and would create perverse incentives for both ATCO Gas and the affiliated company." (Underlining added)[144]

270. ATCO Pipelines submitted that the R&V panel's focus was on the appropriateness of allowing a deferral account for office rent and not consideration of the actual $20 per square foot rate requested by ATCO Gas in the R&V. In support of the $20 per square foot, ATCO Pipelines included in AUC-AP-35(d) attachment[145] (as previously filed by AG), Colliers' International conclusion that the $20.00 per square foot per annum was the market rate for renewal of the Calgary Office lease.

271. As noted above, ATCO Pipelines is a subsidiary of CU Inc., which in turn is a subsidiary of ATCO Ltd. The issue of proper allocation of costs defined as administration and general expenses in the rate design process is complex and can have a significant impact on the cost to customers. For example, in response to CCA-AP-12,[146] ATCO Pipelines provided a breakdown of each cost category in the ATCO Group component of the affiliate services account.

272. The CCA does not consider it appropriate to continue to use a cost allocation formula methodology to allocate all administration and general costs associated with affiliate services without review of the cost drivers and factors associated with such cost allocation method. The CCA submitted there is no evidence that ATCO Pipelines has undertaken any further review of the cost allocation formula methodology or attempted to identify the cost drivers that could most appropriately allocate costs directly attributable to ATCO Pipelines. Further, the recent review of the ATCO Utilities corporate costs did not include ATCO Pipelines.[147] The CCA submits that cost allocation methodologies should be periodically reviewed to examine cost causation drivers that can better assign or allocate operation and maintenance expenses and other costs to the subsidiary where the cost is incurred.[148] The CCA noted that the Commission has recently denied certain factors in ATCO Ltd.'s corporate cost allocation formula methodology:

> The Commission also finds that the equal use of capital expenditures, total assets and gross revenue in the ATCO Ltd. allocation methodology places greater emphasis on investments in capital. This puts a disproportionate emphasis on the ATCO Ltd. companies that have more capital expenditures. Because capital expenditures vary from year to year, the inclusion of capital expenditures in the allocation methodology reduces the predictability and stability of the allocator. The Commission agrees that the capital expenditures are valued twice in the formula; once as part of the capital expenditures themselves and a second time as part of total assets where they are recorded as either

144 Exhibit 61.01, information response AUC-AP-35(d).
145 Exhibit 61.01.
146 Exhibit 64.01.
147 Exhibit 113.01, CCA argument, pages 14-15.
148 Exhibit 113.01, CCA argument, pages 15.

> capital assets or construction work in progress. The Commission therefore finds that capital expenditures should be removed from the allocation methodology.[149]

273. The CCA recommended that ATCO Pipelines be directed to review both the cost factors and cost allocation formula methodology utilized to better determine whether there are identifiable causation drivers that can directly assign costs to the subsidiary utilizing such affiliate services and to the extent the cost allocation formula will continue to be used, determine why the factors identified are reasonable.

Commission findings

274. On June 4, 2012, the ATCO Utilities filed an application with regard to corporate costs that are allocated to the ATCO Utilities by their parent companies. The application was made in response to AUC Decisions 2010-447[150] and 2012-132,[151] as well as a ruling made by the Commission during the processing of Proceeding ID No. 969.[152] The ATCO Utilities requested approval of the corporate costs for ATCO Electric Ltd. and ATCO Gas for the year 2012.

275. Decision 2013-111 issued on March 21, 2013, addressed the corporate costs that are allocated to the ATCO Utilities by their parent companies. On August 9, 2013, the Commission issued Decision 2013-293[153] in accordance with the ATCO Utilities' corporate costs compliance filing pursuant to Decision 2013-111.[154]

276. In Decision 2013-111, the Commission approved the methodology to be used to allocate the total forecast corporate costs for 2012 and for subsequent years. This approved methodology causally allocates the costs for the internal audit function and the human resources function, and uses a composite formula to allocate the remaining costs. This formula consists of an equal weighting to be given to the following: labour expense, total assets, and revenue net of commodity charges, items that flow through to utility customers, and any items eliminated on consolidation from the allocation methodology calculations. In Decision 2013-293, the Commission approved the use of audited financial data from two years prior to the test year as inputs into the allocation formula.

277. Although the CCA argued that Decision 2013-111 did not include ATCO Pipelines, the Commission considers that the only reason that the findings from the decision did not apply to the 2012 test year was that ATCO Pipelines' 2012 revenue requirement was the result of a negotiated settlement. The Commission sees no reason to revisit the issues of appropriate cost causation principles or composite allocators because Decisions 2013-111 and 2013-293 dealt adequately with these issues. The matter of the quantum of ATCO's corporate costs was already

[149] Decision 2013-111 The ATCO Utilities, Corporate Costs, Application No. 1608510, Proceeding ID No. 1920, March 21, 2013.

[150] Decision 2010-447: ATCO Utilities Corporate Cost Allocation Methodology, Application No. 1605473, Proceeding ID. 306, September 20, 2010.

[151] Decision 2012-132: ATCO Electric Ltd. Commission Initiated Review and Variance of Decision 2011-134 ATCO Electric Ltd. 2011-2012 General Tariff Application, Application No. 1607579, Proceeding ID No. 1393, May 15, 2012.

[152] Proceeding ID No. 969 resulted in Decision 2011-450: ATCO Gas (A Division of ATCO Gas and Pipelines Ltd.) 2011-2012 General Rate Application Phase I, Application No. 1606822, December 5, 2011.

[153] Decision 2013-293: The ATCO Utilities, Corporate Costs – Compliance Filing to the Alberta Utilities Commission Decision 2013-111, Application No. 1609573, Proceeding ID No. 2594, August 9, 2013.

[154] Decision 2013-111: The ATCO Utilities, Corporate Costs, Application No. 1608510, Proceeding ID No. 1920, March 21, 2013.

approved in Decision 2013-358.[155] AP is directed to file its ATCO Group costs consistent with Decision 2013-358 and taking into consideration the following directions provided to ATCO Electric in that decision:

- use the 2012 approved amount from Decision 2013-293 of $42.4 million, plus the inflationary factored approved in Decision to set the 2013 corporate costs
- use the actual results from the year 2011 as inputs in the allocation formula, including the December 31, 2011, results of ATCO Gas Australia
- use the actual headcount information at December 31, 2011, in calculating the allocation of the human resources function costs
- include details of how the internal audit function and human resource function allocations were arrived at
- include the 2014 forecast amounts that result from applying inflation of 2.1 per cent to the 2013 forecast amounts for the corporate office – supplies and corporate office – office rent functions; and applying inflation of 3.5 per cent to the 2013 forecast amounts for all other functions.
- include details of how the allocation percentages for the General, CU Public and CU Inc. Public categories were arrived at
- include the amounts for 2012, 2013 and 2014 on a functional basis for only the corporate costs that are allocated to ATCO Pipelines, separated out among General, CU Public, and CU Inc. Public[156]

278. As ATCO Group costs were placeholders pending completion of the Corporate Costs compliance proceeding (Proceeding ID No. 2594), ATCO Pipelines is directed in its compliance filing to refile its proposed ATCO Group corporate costs based on the Commission's findings from Decision 2013-111 and Decision 2013-293.

279. With respect to the issue of the office rent to be allowed for the 2013-2014 test years, the Commission considers that the evidence on the record supports a Calgary office lease rate of $20.00 per square foot. The inclusion of the previously-identified disallowed rent in ATCO Pipelines' forecast O&M of $147,000 for both 2013 and 2014 is approved.

280. ATCO Pipelines' forecast I-Tek O&M expense placeholders of $3.838 million in 2013 and $3.936 million in 2014, pending the Commission's determination of unit prices in ATCO's I-Tek benchmarking process (Evergreen II, Proceeding ID No. 240), are approved.

7.6 Donation, sponsorships, and corporate signature rights

281. In 2011 and 2012, non-utility O&M included corporate signature rights, charitable donations, disallowed rent and the non-cash component of other post-employment benefits (OPEB). These amounts reflect prior Commission decisions or, in the case of corporate signature rights, amounts not previously requested for approval in utility O&M.[157]

[155] Decision 2013-358: ATCO Electric Ltd., 2013-2014 Transmission General Tariff Application, Application No. 1608610, Proceeding ID No. 1989, September 24, 2013.
[156] Decision 2013-358, pages 29-30.
[157] Exhibit 34.03, AP refiled application, PDF page 106.

282. In 2013 and 2014, ATCO Pipelines has included in utility O&M, the cost of corporate signature rights associated with the use of the ATCO trade name ($750,000 for each year) and the cost of donations and sponsorships, which amounts to $418,000 in 2013 and $450,000 in 2014).[158]

283. ATCO Pipelines has included these amounts in its revenue requirement as placeholders pending a decision on the Appeal of Decision 2011-391 on its 2011 Pension Common Matters, from the Court of Appeal of Alberta. In ATCO Pipelines' view, signature rights, donations and sponsorship costs are prudently incurred costs and as such, should be included in the revenue requirement charged to customers. ATCO Pipelines considers that its appeal of Decision 2011-391 will address policy related matters with regard to prudently incurred costs, and any assessment of the inclusion of these costs should occur once an appeal decision[159] has been issued.[160] In UCA-AP-72(d-e), ATCO Pipelines added that as the Commission is aware, it has an obligation to ensure that ATCO Pipelines has the opportunity to recover prudently incurred costs. This obligation is entrenched via statute.[161] This right is also confirmed by common law.[162] On this basis, ATCO Pipelines submitted that it is entitled to recover all costs, including signature rights, donations and sponsorship costs.[163] ATCO Pipelines has never been disallowed its sponsorship costs and submits that the placeholder amounts requested by ATCO Pipelines are appropriate.

284. In support of its argument for the inclusion of community involvement spending in its revenue requirement, ATCO Pipelines noted that the British Columbia Utilities Commission (BCUC) has recognized the significant benefits that accrue to customers in relation to similar costs incurred by Fortis and as a result, Fortis was allowed recovery of 50 per cent of the community involvement spending in revenue requirement. ATCO Pipelines submitted that Fortis' community involvement spending is similar in nature to the donations and sponsorships of ATCO Pipelines, which are focused on safety, environment, education, community sustainability, and aboriginal relations for areas in which ATCO Pipelines operates its facilities.

285. In the view of the UCA, corporate branding spending should be excluded from revenue requirement because it is the shareholders, not customers, that benefit from those expenses. In response, ATCO Pipelines submitted that the UCA takes a narrow view of the benefits that accrue from corporate branding spending and ignores the benefits to customers, as recognized by the BCUC.

286. CAPP concurred with the arguments of both the UCA and the CCA that donations, sponsorships and corporate signature rights costs included in the test years should be denied and placeholder treatment not be permitted.

287. The CCA considers the classification of corporate signature rights, charitable donations and sponsorships as utility O&M, an inappropriate method to allocate costs which are not

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158 Exhibit 34.03, AP refiled application, PDF page 106.

159 *Atco Gas and Pipelines Ltd. v Alberta (Utilities Commission)* 2013 ABCA 310 - appeal dismissed; application for leave to appeal to the Supreme Court of Canada pending.

160 Exhibit 34.03, AP refiled application, PDF page 107.

161 See sections 36 and 37 of the *Gas Utilities Act*.

162 *Enbridge Gas Distribution Inc. v. Ontario (Energy Board)*, [2005] O.J. No. 756 (S.C.J.), rev'd [2006] O.J. No. 1355 (C.A.), [2006] S.C.C.A. No. 208; ATCO Electric Ltd. v. Alberta (Energy and Utilities Board), 2004 ABCA 215; and *Northwestern Utilities Ltd. v. Edmonton (City)*, [1979] 1 S.C.R. 684.

163 Exhibit 62.01, UCA-AP-72(d-e), PDF pages 189-190.

directly attributable to providing service to residential customers. The CCA submitted that ATCO Pipelines has not provided any meaningful explanation to support why costs associated with corporate signature rights are not only appropriate but properly allocated to utility O&M, especially in light of the fact that corporate signature rights as a component of non-utility O&M expenses have never previously been allowed by regulatory authorities. The CCA also noted that the cost of charitable donations as part of a utilities revenue requirement has been previously disallowed by regulatory authorities as acknowledged in ATCO Pipelines' response to AUC-AP-35.[164] The CCA considers that ATCO Pipelines' transfer of charitable donations and sponsorships from utility O&M to a non-utility O&M placeholder pending the outcome of its Appeal of AUC Decision 2011-391, is an inappropriate method of recognizing expenses which to date have never been allowed.

288. The UCA also recommended that these placeholders should be denied outright, given that shareholders, and not customers, benefit from these activities. In the alternative, $0.0 placeholders could be approved.

289. The UCA submitted that there is a long history of the Commission and its predecessors denying the inclusion of donations and sponsorships in utility revenue requirements.[165] Consequently, the UCA recommended that the forecast of donations and sponsorships of $418,000 in 2013 and $450,000 in 2014 should be removed from revenue requirement.

290. The UCA emphasized that Mr. Bell's evidence shows that the Commission and its predecessors have consistently ruled that corporate branding should be excluded from revenue requirement.[166] The UCA submitted that because "costs" of corporate signature rights amount to paying for corporate branding, they too should be excluded from revenue requirement. The UCA also argued that forecast corporate signature rights of $750,000 for each year should be removed from ATCO Pipelines' revenue requirement.

Commission findings

291. There is a long history of the Commission and its predecessors denying the inclusion of donations and sponsorships in utility revenue requirements.[167]

292. There is no evidence establishing that these donations and sponsorships provide a clear benefit to utility customers and that such donations and sponsorships are required for the provision of utility service to customers. As such, ATCO Pipelines is directed in its compliance filing to remove donations and sponsorships costs from ATCO Pipelines' revenue requirement.

164 Exhibit 61.01.

165 Decision U97065 respecting the 1996 Electric Tariff Applications, page 520, Decision 2001-96 respecting ATCO Gas South, page 98; Decision 2003-106 respecting Direct Energy Regulated Services (DERS) 2004 GRA, page 104; in Decision 2004-067 respecting EPCOR Distribution, page 50; Decision 2006-004 regarding the AG 2005-2007 GRA, page 74; Decision 2008-113, the Commission denied the inclusion of AG donations, page 76; Decision 2009-087 regarding the AE 2009/10 General Tariff Application.

166 Decision 2003-072, page 191.

167 Decision U97065 respecting the 1996 Electric Tariff Applications, page 520, Decision 2001-96 respecting ATCO Gas South, page 98; Decision 2003-106 respecting Direct Energy Regulated Services (DERS) 2004 GRA, page 104; in Decision 2004-067 respecting EPCOR Distribution, page 50; Decision 2006-004 regarding the AG 2005-2007 GRA, page 74; Decision 2008-113, the Commission denied the inclusion of AG donations, page 76; Decision 2009-087 regarding the AE 2009/10 General Tariff Application.

293. Signature rights are similar to corporate advertising, inclusion of which has recently been rejected by the Commission in Decision 2013-111, where it stated:

> 50. In connection with the corporate communications function, the Commission has also reviewed the items included in corporate advertising costs and is not persuaded that these costs are necessary for the provision of utility service. This is consistent with the Commission's finding in paragraph 780 of Decision 2011-450 on the ATCO Gas 2011-2012 Phase I General Rate Application. The Commission directs the ATCO Utilities, in the compliance filing pursuant to this decision, to exclude any and all costs that relate to corporate advertising that are included in the $45.3 million total requested forecast corporate costs for 2012.[168]

294. Further in Decision 2002-069, the Commission stated:

> The Board notes FIRM's suggestion that fees pursuant to the use of the ATCO name are inappropriate for current and future test periods. The Board also notes that ATCO voluntarily removed this item from the GRA Amounts, with the expectation that it could be re-introduced at a future proceeding. The Board expects that, at that time, ATCO would provide further justification for its application.
> The Board accepts ATCO's withdrawal of this amount from the Application and the Board directs ATCO, in future Filings (GRA, Statutory Review, Annual Report of Finances and Operations, etc.) to treat any amounts paid for signature rights as a non-utility expense, consistent with utility reporting (i.e. reconciling items between corporate financial and utility income).[169]

295. The Commission finds that there is no evidence establishing that these corporate signature rights provide a clear benefit to utility customers and concludes that they are not required for the provision of utility service. Consequently, ATCO Pipelines is directed in its compliance filing to remove all corporate signature right expenses from its revenue requirement. ATCO Pipelines requested that donations, sponsorships and corporate signature rights be included in its revenue requirement as placeholders pending a decision on the Appeal of Decision 2011-391. The Commission noted that on September 23, 2013, the Alberta Court of Appeal rendered a judgement dismissing the ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. appeal of Decision 2011-391.[170] Given the Court of Appeal judgement, ATCO Pipelines' requested placeholder for donations, sponsorships and corporate signature rights is denied.

7.7 Variable pay program and deferral account

296. ATCO Pipelines forecast variable pay program (VPP) expenses in the amount of $1,765,000 for 2013 and $1,857,000 for 2014. The VPP forecast by ATCO Pipelines to be capitalized is $1,023,000 for 2013 and $1,075,000 for 2014. The total cost of the VPP is $2.8 million for 2013, and $2.9 million for 2014.[171] ATCO Pipelines recommended deferral account treatment for the VPP whereby differences between the Commission-approved VPP forecast, and actual VPP payments will be placed in a deferral account and settled at a subsequent regulatory proceeding.

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168 Decision 2013-111, paragraph 50.
169 Decision 2002-069, ATCO Affiliate Transactions and Code of Conduct Proceeding – Part A, page 73.
170 *Atco Gas and Pipelines Ltd. v Alberta (Utilities Commission)* 2013 ABCA 310 - appeal dismissed; application for leave to appeal to the Supreme Court of Canada pending.
171 Exhibit 34.02, refiled application, PDF page 112.

297. ATCO Pipelines submitted that it has provided a significant amount of detail in this proceeding regarding its VPP, including the purposes of the VPP, the number of employees eligible for VPP, the basis for administration of the VPP, and the parameters of the VPP requested. ATCO Pipelines indicated that its short-term VPP will be administered based on: (i) achievement of employees' individual performance goals; (ii) achievement of operational metrics; and (iii) achievement of financial goals. Based on independent market data, ATCO Pipelines submitted that the VPP is critical to its ability to attract and retain skilled employees and that the incentive program is an expectation of professionals in the market place in which ATCO Pipelines competes for employees. ATCO Pipelines submitted that the costs of the VPP are prudent, and should be included in ATCO Pipelines' revenue requirements for the 2013 and 2014 test years.[172]

298. In response to UCA-AP- 124(a), ATCO Pipelines provided the costs of the various portions of its VPP.[173]

Table 11. ATCO Pipelines forecast variable pay program

	2013 forecast ($000)	2014 forecast ($000)
Short-term compensation	2,788	2,935
Mid-term compensation	322	398
Long-term compensation	110	110

299. In addition, in response to the revised AUC-AP-38 (b), ATCO Pipelines indicated that the weighting of its VPP is based on a weighting of 90 per cent safety and operational, and 10 per cent financial metrics.[174]

300. The UCA submitted that the medium term incentive plan (MTIP) is entirely based on financial results. In addition, as the long term incentive plan (LTIP) is based on share prices, the UCA said that this is entirely a shareholder value, and not a customer benefit. As ATCO Pipelines' shares are not publically traded, the share prices referred to in the LTIP must be the prices of one of the two publically-traded ATCO Pipelines parents, either Canadian Utilities Ltd. (CUL) or ATCO Ltd.[175] The UCA argued that using share performance of ATCO Pipelines' parent companies is inconsistent with prior AUC decisions: Decision 2011-134, regarding the ATCO Electric 2011/12 GTA and Decision 2012-272, regarding the EDTI 2012 Distribution Tariff.[176]

301. The UCA also submitted that the Commission should deny the MTIP and LTIP components for the 2014 test year and limit the financial component of the STIP to 10 per cent by denying the control component. It objected to ATCO Pipelines request for the inclusion of an updated VPP in its initial application and refiled application with little or no information on the nature of the revised VPP and to the fact that ATCO Pipelines did not finalize the details of its

172 Exhibit 112.01, AP argument, page 20.
173 Exhibit 108.01, AUC-AP-124(a), page 2.
174 Exhibit 114.01, UCA argument, page 15.
175 Exhibit 108.01,UCA-AP-125 (a-b).
176 Exhibit 81.01, evidence of Russ Bell, pages 23-24.

VPP until July 5, 2013.[177] For the 2013 test year, the UCA requested that the Commission deny all incremental VPP costs because of its late development, and also because the structure of the VPP has been previously rejected by the Commission.[178] In its evidence, the UCA recommended that the 2013 and 2014 costs for VPP be limited to the 2012 forecast levels, that there be no deferral account, and that the Commission provide the following directions to ATCO Pipelines regarding the content of its VPP:

- The primary focus of the AP VPP should be related to operational or customer focussed goals.
- The weighting of the component related to financial results should be limited to a 10 per cent weighting.
- The goal related to financial results should be based on AP's performance or earnings, and not on the performance or earnings of ATCO Gas and Pipelines Ltd., Canadian Utilities Ltd. ATCO Ltd, or any other affiliates.
- Eleven metrics should exclude business development metrics and costs.[179]

302. ATCO Pipelines submitted that there is no basis upon which to limit the VPP costs to 2012 forecast levels. Further, ATCO Pipelines submitted that a deferral account is warranted in that it is responsive to the Commission's concerns about variances between forecast and actual costs of the VPP.[180]

303. CAPP had several issues with ATCO Pipelines' proposed VPP costs. As a matter of principle, it was CAPP's position that incentives based on financial goals should be paid by shareholders. The incentives are intended to drive behaviour that is to benefit of the shareholder and should therefore be paid by the beneficiary. CAPP took issue with ATCO Pipelines' refusal to provide the specific financial goals, on the grounds that its goals are "proprietary." CAPP submitted that, whether ATCO Pipelines' claim is justified or not is irrelevant and that its refusal to provide its financial goals prevents the Commission from examining those goals to ensure that, those goals will, benefit customers at some point. CAPP also noted that in ATCO Pipelines' revised response to AUC-AP-38(d) as of late June/early July of 2013, none of the metrics, individual, operational or financial, had been finalized. CAPP finds it incredible that any incentive program can actually be considered legitimate when the measures against which both the corporation and individuals are being measured have not been determined half-way through the year. According to CAPP, the absence of metrics a full six months into the year calls into question the value and objectivity of the VPP program in 2013.[181]

304. CAPP recommended the following:

1. That the 10% of AP's VPP costs that are based on financial goals be disallowed.
2. That AP be directed to file, on a confidential basis, the target objectives or goals for all executives at AP and the associated VPP costs.
3. That the Commission disallow any compensation costs for AP executives where their objectives or goals, are based on financial goals (adjusted for the 10% of VPP costs already disallowed as per 1. above).

177 Exhibit 95.01, AP revised responses to VPP IRs.
178 Exhibit 114.01, UCA argument, page 17.
179 Exhibit 81.01, UCA evidence of Russ Bell, PDF pages 25-26.
180 Exhibit 114.01, UCA argument, page 19.
181 Exhibit 111.01, CAPP argument, pages 11-12.

4. That AP's allowed VPP costs for 2013 be reduced by at least 50% because AP did not have any metrics in place for its program for at least the first half of 2013.[182]

305. CAPP agreed with the UCA[183] that:

- the metrics described by ATCO Pipelines under the "control" heading do indeed appear to be financial and not operational metrics and that, consequently, the short term incentive plan has a financial weighting in excess of 10.0 per cent

- both ATCO Pipelines' MTIP and LTIP are based on the performance or earnings of a corporate group or affiliate.

306. Consequently, CAPP supports the UCA's recommendation that the "control" portion of ATCO Pipelines' STIP and all of ATCO Pipelines' MTIP and LTIP should be denied.[184]

307. ATCO Pipelines submitted that it's overall compensation package was found to be inadequate prior to 2013 based on exit interviews with departing employees. This was confirmed by the Mercer Total Compensation Survey, particularly with respect to incentive pay. As such, ATCO Pipelines concluded that competitive incentive compensation must be addressed in 2013 for the full 2013 year, should not be introduced part way through the year and cannot be deferred to 2014. While transitioning to ATCO Pipelines' 2013 VPP will require some management judgment, ATCO Pipelines indicated that it has committed to a framework based on achievement of individual performance goals, operational metrics, and financial goals. The framework metric parameters are set at 90 per cent operational and 10.0 per cent financial, with individual performance affecting final payout by 0-1.5 times.[185] ATCO Pipelines stated that its VPP cost is an annual forecast necessary for 2013, is reasonable, and that along with its associated deferral account should be approved as submitted.[186]

308. With respect to MTIP and LTIP, ATCO Pipelines explained that if the ATCO Group financial goal is met, payment of ATCO Pipelines' MTIP is subject to satisfactory employee performance. ATCO Pipelines' LTIPs are not based on financial goals and only have value if the price of the underlying shares is higher at the time of exercise than it was at the time of granting. ATCO Pipelines submitted that it is reasonable for ATCO Pipelines to use an affiliate-based metric when it is tied to an affiliate based award. ATCO Pipelines notes that it only issues MTIPs in unique circumstances and their impact is immaterial; similarly ATCO Pipelines' LTIPs are immaterial. While ATCO Pipelines' use of MTIPs and LTIPs is minimal and targeted, as evidenced by its presence in the Mercer study, it is considered an important tool that ATCO Pipelines needs in order to respond to market competitors, and for attracting and retaining staff.[187] As such ATCO Pipelines submitted that its use of MTIP and LTIP and its reference to ATCO affiliate metrics is reasonable. ATCO Pipelines forecast VPPP including MTIP and LTIP and the requested deferral should be approved as filed.

182 Exhibit 111.01, CAPP argument, page 12.
183 Exhibit 114.01, UCA argument, paragraph 70.
184 Exhibit 116.01 CAPP reply argument, page 2.
185 Exhibit 95.01, AP response to information request AUC-AP-38(b) and (c) [Revised].
186 Exhibit 117.01, AP reply argument, pages 23-24.
187 Exhibit 117.01, AP reply argument, page 25.

309. ATCO Pipelines argued that CAPP's argument with respect to the disallowance of VPP costs related to financial goals is unsupported and should be rejected.

310. ATCO Pipelines further explained that "control" in the context of an operating metric means just that, an operating control metric (i.e., cash forecasting accuracy, IT cost per user, etc.). ATCO Pipelines submitted that its "control" metrics are operating metrics, not financial goal metrics, and that the UCA's argument should be rejected.[188]

311. In response to the UCA's request that the Commission provide directions to ATCO Pipelines regarding its VPP, ATCO Pipelines referred to ATCO Pipelines' response to AUC-AP-38, where it confirmed the weighting of its short-term VPP criteria. ATCO Pipelines submitted that this criteria and the weighting of the criteria is consistent with the directions requested by the UCA, that no further direction from the Commission in this regard is required and that the Commission approve ATCO Pipelines' VPP as filed.

312. In response to CAPP's argument on executive VPP compensation recommending confidential disclosure of details, and disallowances, ATCO Pipelines submitted in AUC-AP-38(d) that:[189]

> AP is not prepared to disclose some of the requested information due to privacy reasons, as it would identify an individual's personal compensation. The following excerpt from Towers Watson's review of AP's executive compensation, states "On average, salary, target total cash (TTC) and target total direct compensation (TTDC) are within our standard benchmark of +/- 10% of the market 50th percentile.

313. ATCO Pipelines noted that the Commission's practice has been to respect the privacy of individual personal compensation, and to address executive compensation collectively in a separate proceeding should the need arise. In this regard, it argued that ATCO Pipelines' executive compensation is within Towers Watson's standard benchmark of +/-10 per cent of the market 50th percentile and ATCO Pipelines therefore submitted that CAPP's arguments should be rejected.[190]

314. In conclusion, ATCO Pipelines submitted that the costs of the VPP are prudent, and should be included in ATCO Pipelines' revenue requirements for the 2013 and 2014 test years with the applied for deferral account treatment.

Commission findings

315. The main issues raised by interveners with respect to ATCO Pipelines' VPP are whether or not it is reasonable for ATCO Pipelines to include LTIP and MTIP as components of its VPP; whether VPP should include financial goals; whether a deferral account is required; and whether or not it should operate on a symmetrical basis.

316. In response to the revised AUC-AP-38 (b), ATCO Pipelines indicated that its VPP is based on a weighting of 90 per cent safety and operational targets, and 10.0 per cent financial metrics.

188 Exhibit 117.01, AP reply argument, page 26.
189 Exhibit 61.01, AP response to information request AUC-AP-38(d).
190 Exhibit 117.01, AP reply argument, page 26.

317. The Commission considers that ATCO Pipelines' weighting of VPP is generally consistent with the Commission's findings in 2011-450:

> 748. In Decision 2011-134 the Commission approved the inclusion of a net income component in the ATCO Electric VPP, with the conditions that the components reflect only ATCO Electric's net income and that the net income component not exceed 10 per cent of the program total. In Decision 2009-151, the Commission also approved a net income goal of 10 per cent for AltaLink's short term incentive plan and an earnings component of EDTI's short-term incentive program in Decision 2010-505.
> …..
> 751. The Commission finds that the inclusion of net income component within a VPP is reasonable when there is a balance struck between the benefits that customers may receive through reduced costs versus increased earnings for the benefit of shareholders. A net income component greater than 10 per cent for officers and senior managers might result an inherent conflict between shareholder interests and customers. The Commission finds that setting limits to individual performance objectives will ensure that management is not incented to maximize shareholder value at the expense of customers. If AG wishes to include a net income component for specific individuals higher than 10 per cent of their VPP compensation, those costs are to be borne by shareholders. AG is directed to revise its VPP forecast to reflect a maximum individual net income component of VPP of 10 per cent in its compliance filing to this decision with a supporting explanation to its revised VPP forecast.

318. Consistent with Decision 2011-450, the Commission therefore approves ATCO Pipelines 10.0 per cent financial goals weighting for individual performance objectives of VPP for the test years as filed.

319. Further, the Commission is satisfied with ATCO Pipelines' explanation that its "control" metrics are operating metrics, not financial goal metrics, and therefore, including this metric in ATCO Pipelines' VPP is reasonable.

320. ATCO Pipelines applied to establish a VPP deferral account based on an fully symmetrical methodology. The issue of symmetry with respect to the establishment of deferral accounts was discussed by the Commission in paragraph 73 of Decision 2010-189[191] as follows:

> 73. In another Board decision, also referenced in Decision 2003-100, the Board, when examining the merits of an application for a deferral account on the facts of that proceeding, took the view that "deferral accounts should not be for the sole benefit of either the company or the customers." Deferral accounts, rather, should "provide a degree of protection to both the Company and the customers from circumstances beyond their control," and hence "[s]ymmetry must exist between costs and benefits for both the Company and its customers." The Board also noted that it expected that "the individual mechanisms involved in the use of each deferral account should be applied in a consistent and fair manner in both test years and non-test years." This will be referred to as the symmetry factor. (footnotes omitted)

321. The VPP is controlled by the utility and employee eligibility and any payments made on VPP objectives are solely at the discretion of ATCO Pipelines. If the utility has the discretion to increase the VPP costs and participants, customers would be exposed to a significant risk of

[191] Decision 2010-189: ATCO UTILITIES, Pension Common Matters, Application No. 1605254, Proceeding ID No. 226, April 30, 2010.

additional costs. The Commission considers that an asymmetrical deferral account protects customers from variances between forecast and actual costs of the VPP which is solely under management control. In AUC-AP-38(f), ATCO Pipelines provided the forecasted VPP and payments from 2008 to 2012. ATCO Pipelines forecast $1.474 million and paid out $1.42 million in 2008, while ATCO Pipelines forecast VPP was $1.710 million and paid $1.560 million in 2009. Between 2010 to 2012, ATCO Pipelines was under a settlement agreement that did not include forecast amount for VPP costs. As a result, there is not enough history to be assured that ATCO Pipelines will pay VPP at levels that are consistent with forecast VPP costs. As a result, the Commission finds that an asymmetrical VPP deferral account is reasonable and consistent with Decision 2008-113:

> 65. The VPP deferral account was established to reconcile revenue requirement for the test years in order to eliminate concerns regarding changes to the utility's expenses that are in management's control and could result in a benefit to the company that was not intended by the Commission's decision.

322. With respect to the inclusion of MTIP and LTIP in ATCO Pipelines' VPP, the Commission has previously denied the inclusion of VPP components related to ATCO corporate results:

> In Decision 2011-134, regarding the ATCO Electric 2011/12 GTA, the Commission approved the ATCO Electric STIP, but stated "[h]owever, the Commission is concerned that the net income component of ATCO Electric's VPP program must be tied to the net income goals of ATCO Electric only, and not to ATCO corporate net income."[192]

…..

> In Decision 2012-272, regarding the EDTI 2012 Distribution Tariff, the Commission confirmed that the earnings component of any STI should be based on the earnings of the utility and not its parent or corporate group. In addition, the Commission ruled that EDTI Pool B STI payments were to be treated as nonutility costs as they relate entirely to earnings.[193]

> In Decision 2012-272, regarding the EDTI 2012 Distribution Tariff, the Commission ruled that the entire EDTI Mid Term Incentive (MTI) plan costs were to be removed from revenue requirements because the MTI goal was related solely to the increase in assets.[194]

323. The Commission finds that ATCO Pipelines' MTIP and LTIP are directly tied to the corporate performance of its parent, and consistent with prior decisions, the inclusion of these costs is denied.

324. A recommendation was made ATCO Pipelines' VPP should be restricted to 2012 levels due to the late development of the plan. The Commission is not prepared to deny additional forecast VPP costs because of the Mercer Reports' finding that ATCO Pipelines' compensation is below its peer market comparators. Attachment 2 of the Mercer Report[195] showed that ATCO

192 Decision 2011-134, paragraph 309.
193 Decision 2012-272, paragraphs 118 and 119.
194 Decision 2012-272, paragraphs 128 and 129.
195 Exhibit 42.02, Attachment 2, ATCO Pipelines Employee Compensation Review, page 6.

Pipelines in 2013 was 1.0 per cent below the market median of the comparators, 6.0 per cent below for target total cash compensation[196] and 17 per cent below for target total direct.[197]

7.8 Defined benefit pension

325. ATCO Pipelines requested a deferral account for forecast pension costs related to the defined benefit plan, special payments and COLA reduction for the 2013 and 2014 test period. While the existing actuarial pension plan valuation covers the period 2010 to 2012, an updated actuarial pension plan valuation is required to be completed as of December 31, 2012 to cover the 2013 to 2014 test period. The following defined benefit plan, special payment and COLA reduction placeholders were included in the application.[198]

Table 12. ATCO Pipelines pension expense placeholders

	($000)	
	2013	2014
Defined benefit	3,293	3,293
Special payments	2,621	2,621
	5,914	5,914
50% COLA reduction	(2,400)	(2,400)
	3,514	3,514
O&M and capital allocation		
O&M	2,192	2,192
Capital	1,322	1,322
	3,514	3,514
Transmission allocation	1,603	1,603
Administration and general (A&G)		
A&G allocation	589	589
50% COLA reduction	2,400	2,400
	2,989	2,989
Less: non-utility	2,400	2,400
	589	589

326. ATCO Pipelines included the pension COLA adjustment amounts in 2013 and 2014 as placeholders pending a decision on the appeal of AUC Decision 2011-391 (2011 Pension Common Matters) from the Court of Appeal of Alberta. ATCO Pipelines considers that the appeal of Decision 2011-391 will address policy related matters with regard to prudently incurred costs, and any assessment of the inclusion of these costs should occur once that appeal decision has been issued.

327. The CCA notes there are no citations to prior decisions indicating approval for transfer of items such as corporate donations and sponsorships or disallowed COLA adjustments supporting a utility O&M expense as a non-utility O& M – administration and general expense.

196 Target total cash compensation (sum of base salary, target short-term incentives and other nonguaranteed cash awards, if any).

197 Target total direct compensation (sum of target total cash compensation and the expected value of long-term incentives, if any).

198 Exhibit 34.03, AP refiled application, PDF page 113.

328. The CCA considers ATCO Pipelines' transfer of disallowed COLA adjustment and previously disallowed donations expense from utility O&M to an O&M – administration and general placeholder pending the outcome of its appeal of AUC Decision 2011-391, is an inappropriate method of recognizing expenses which have been previously disallowed or never allowed to date and recommended that these costs be removed.[199]

Commission findings

329. On August 23, 2013, ATCO Utilities submitted an application to the Commission to recover its full pension costs for 2013 (Proceeding ID No. 2799). In accordance with the directions given in Decision 2011-391, ATCO Utilities filed a Mercer actuarial valuation for pension funding as at December 31, 2012. ATCO Utilities also filed evidence in support of the recovery of its full pension costs identified in the Mercer valuation report.

330. The Commission closed Proceeding ID No. 2799 because the application and supporting Mercer actuarial report was found to be incomplete as it did not contain the information necessary for the Commission to assess compliance with the directions in Decision 2011-391. In light of the September 23, 2013 Court of Appeal decision, ATCO Utilities was directed to refile its application in a manner that is consistent with the directions in Decision 2011-391.

331. Given the above, the Commission finds that the existing placeholders should continue pending a Commission determination of pension costs based on an updated Mercer valuation report.

332. The Commission also finds that ATCO Pipelines request to recover its full pension costs is contrary to the Commission's directions in Decision 2011-391 which permitted the recovery of only 50 per cent of the consumer price index up to 3.0 per cent.[200]

333. In light of the September 23, 2013 Alberta Court of Appeal judgement dismissing ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. appeal of Decision 2011-391,[201] ATCO Pipelines is directed, as part of the compliance filing, to remove the inclusion of any pension costs from the defined benefit pension placeholder that is based on a higher COLA than the level approved in Decision 2011-391.

334. The Court of Appeal's judgement dismissing the ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. appeal of Decision 2011-391 also impacts other forecast costs in ATCO Pipelines' revenue requirement, specifically donations and sponsorships and corporate signature rights which are addressed in Section 7.6 of this decision.

7.9 ATCO I-Tek volumes

335. ATCO Pipelines provided ATCO I-Tek volumes for the years 2011 to 2014 on a total company basis. These volumes are used to determine ATCO I-Tek capital and operating and maintenance expenses for services that are based on volume or unit rates. ATCO Pipelines' I-Tek placeholders for the 2013 and 2014 test years are $3.838 million and $3.936 million

[199] Exhibit 113.01, CCA argument, page 23.
[200] Decision 2011-391: ATCO Utilities (ATCO Gas, ATCO Pipelines, and ATCO Electric Ltd.) 2011 Pension Common Matters, Application No. 1606850, Proceeding ID No. 999, September 27, 2011, paragraph 98.
[201] *Atco Gas and Pipelines Ltd. v Alberta (Utilities Commission)* 2013 ABCA 310.

respectively. In AUC-AP-34(a)[202] ATCO Pipelines explained that its I-Tek volumes increase primarily due to increased staff, user fees, storage, voice, and hardware. The values for these charges are placeholder amounts that will be finalized upon completion of the ATCO I-Tek benchmarking process (Evergreen II, Proceeding ID No. 240).[203] The Commission has reviewed ATCO Pipelines' forecast I-Tek volumes and is satisfied with ATCO Pipelines' explanation of the volume increases.

7.10 Reserve for injury and damages

336. ATCO Pipelines has applied for $200,000 in each test year to fund the reserve for injuries and damages (RID):

> Regarding the RID, AP notes: "AP cannot reasonably forecast the potentially catastrophic impact of unforeseeable events. Please refer to CCA-AP-15(b)."[204]

337. The CCA noted the AUC eliminated the RID account for the electric and natural gas distribution companies, including ATCO Gas. The AUC ruled as follows:

> **7.4.2.4.1 Self-insurance/reserve for injuries and damages**
>
> 687. Fortis,[864] EPCOR,[865] ATCO Electric[866] and ATCO Gas[867] all requested that their self-insurance deferral accounts be continued as Y factors. While there may be some activity in these accounts on an annual basis, the primary purpose of these accounts is to capture the effects of major events that are not covered by insurance. The Commission considers that during the PBR term the significant events that the companies are concerned about could be addressed as Z factors while the non-significant events should be covered by the I-X mechanism. The Commission will allow the companies to include a provision in their going-in rates calculated as follows. The provision will be equal to the average value of each event that was included in their deferral account or as an adjustment to their reserve account for the most recent five-year period. This amount is to be reflected in the companies going-in rates. The companies are directed to identify this adjustment to going-in rates in their compliance filings and the Commission will make a determination in the in the compliance filing decision as to whether or not the adjustment is reasonable.
>
> [864] Exhibit 100.02, Fortis application, Section 6.1.4, paragraphs 97-98, page 28.
> [865] Exhibit 103.02, EPCOR application, Section 2.3.5, Table 2.3.5-2, page 51.
> [866] Exhibit 98.02, ATCO Electric application, Section 6, paragraphs 156-162, pages 6-17 to 6-18.
> [867] Exhibit 99.01, ATCO Gas application, Section 2.5.1.2.2, paragraph 59, page 24.[205]

338. The CCA expressed its concern with two distinct treatments of injury and damages expenses for the respective business units of ATCO Gas and Pipeline Ltd. The CCA submitted that the customers of ATCO should face similar injury and damage costs and should therefore bear the same risk of the RID in the transmission function as they face in the distribution function. Further, these distinctions and disparity of risk level will weigh into the respective cost of capital determinations for each of ATCO Pipelines and ATCO Gas. For these reasons, the

[202] Exhibit 61.01.
[203] Exhibit 34.03, PDF page 102.
[204] Exhibit 64.01.
[205] Decision 2012-237: Rate Regulation Initiative Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012, page 148.

CCA recommended that the Commission remove the reserve account treatment for injuries and damages for ATCO Pipelines.[206]

339. In response to CCA-AP-15(c),[207] where ATCO Pipelines indicated that $498,000, labeled as Bittern Lake internal reclamation costs in 2012, was charged to the RID account, the CCA submitted that reclamation costs should not be charged to the RID account. The CCA considers that the $498,000 entry should be removed.[208]

340. In response to the CCA's concerns over the different treatment of injury and damages expenses for ATCO Gas and ATCO Pipelines, it submitted that a review of AUC Decision 2012-237 confirms that while the AUC changed the manner by which the electric and natural gas distribution companies would recover costs related to major events not covered by insurance, the change did not preclude the companies from recovering such costs. It changed the way in which the utilities could recover such costs. The change for the electric and natural gas distribution companies occurred as a result of a move to a performance-based regulatory regime, where adjustments would be made to rates to account for events outside of the control of the company. That is, there was still a mechanism for utilities to recover costs related to events outside the control of the company. Moreover, the CCA has not proposed an alternative to the ATCO Pipelines RID, and ATCO Pipelines submitted that no alternative is required. ATCO Pipelines further noted that the CCA proposal has not been examined in the context of this proceeding, and comes rather late in the day.

341. In response to the CCA's argument that reclamation costs of $498,000 should not be charged to RID, ATCO Pipelines submitted that such costs are properly recovered through the RID as they are self-insured costs. However, if the Commission considers that RID is not the appropriate account for recovery of the reclamation costs, ATCO Pipelines submitted that the costs be considered part of negative net salvage, where reclamation costs related to asset retirements would otherwise be charged.[209]

Commission findings

342. There is no evidence on the record that supports the CCA's conclusion that the RID account should be eliminated to be consistent with ATCO Gas which is under a performance based regulatory regime. Interveners did not question the quantum of the Bittern Lake internal reclamation costs of $498,000 and offered no alternative means to recover these costs. Absent any evidence that shows an alternative approach to recover these costs, the Commission accepts ATCO Pipelines' explanation that the Bittern Lake reclamation costs of $498,000 are self-insured costs which should be included in ATCO Pipelines' RID account. ATCO Pipelines' RID expenses forecast for the 2013 and 2014 test years are approved as filed.

7.11 AUC operating fee

343. ATCO Pipelines is forecasting a placeholder of $2,500,000 in each of the years 2013 and 2014 for the AUC administration fee and is requesting that these costs be placed in a deferral account because it has been unable to reasonably forecast these costs in the past. The AUC

206 Exhibit 113.01, CCA argument, page 33.
207 Exhibit 64.01.
208 Exhibit 113.01, CCA argument, page 33.
209 Exhibit 117.01, AP reply argument, pages 30-31.

administration fee has increased from $2,043,631 in 2011 to $2,315,729 in 2012, which is a 13 per cent increase.[210]

344. In UCA-AP-72(a-b),[211] ATCO Pipelines demonstrated that the AUC administration fee allocated to ATCO Pipelines has increased between 2.0 per cent and 171 per cent over the last five years. The Commission considers that the significant range of annual increases for the AUC's administration fee, historical variances between ATCO Pipelines' forecast and actual costs, the fact that the costs are outside of the control of ATCO Pipelines, and lastly, the materiality of the costs, warrant deferral account treatment. The Commission approves deferral account treatment for ATCO Pipelines' AUC administration fee and forecast costs for the 2013 and 2014 test years, subject to future true-up.

7.12 Hearing cost reserve

345. ATCO Pipelines is forecasting an expense level of $308,000 in 2013 and $1,150,000 in 2014 related to the hearing cost reserve account. The 2013 expense provision amount includes the settlement of the estimated 2012 credit balance in the hearing cost reserve account in the amount of $842,000, half the estimated 2013/2014 GRA costs estimated at $1,500,000 and a forecast for other hearing costs of $400,000. The 2014 expense forecast consists of the remaining half of the estimated 2013/2014 GRA costs and the $400,000 estimate of other hearing costs.[212]

346. The Commission has reviewed ATCO Pipelines' forecast hearing costs and is satisfied that these costs are reasonable, especially in light of the busy regulatory schedule and pending applications that ATCO Pipelines expects to participate in during the 2013 and 2014 test years, as listed by ATCO Pipelines in AUC-AP-36:[213]

- 2013/2014 General Rate Application
- Urban Pipeline Replacement
- 2012 Final Revenue Requirement Compliance Filing
- Stakeholder Consultation on the Application Process for New Gas Utility Pipelines
- Generic Cost of Capital
- Pension Common Matters
- 2010 I-Tek Evergreen/IT Benchmarking
- Utility Asset Disposition[214]
- Corporate Cost Allocation
- Bulletin 2013-05 – Open letter consultation on the review of AUC practices and procedures

347. Accordingly, ATCO Pipelines' forecast hearing costs are approved as filed.

7.13 Taxes – income

348. ATCO Pipelines forecast income taxes of $4,623,000 for 2013 and $539,000 for 2014.[215]

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[210] Exhibit 34.03, PDF page 105.
[211] Exhibit 62.01.
[212] Exhibit 34.03, PDF page 108.
[213] Exhibit 61.01.
[214] Decision 2013-417: Utility Asset Disposition, Application No. 1566373 Proceeding ID No. 20, November 26, 2013.

349. The Commission has reviewed ATCO Pipelines' income tax schedule and approves ATCO Pipelines' forecast income taxes for the 2013 and 2014 test years, subject to any adjustments resulting from Commission findings in this decision.

7.14 Taxes – other than income

350. ATCO Pipelines' taxes other than income are forecast to be $13,418,000 for 2013 and $13,971,000 for 2014. ATCO Pipelines notes that the 2011 and 2012 property tax and franchise fees were treated as "flow through" items for the 2010-2012 revenue requirement settlement. The difference between the actual amount and the forecast amount was placed in a deferral account for collection from or refund to customers.[216]

351. The Commission has reviewed ATCO Pipelines' taxes – other than income and finds ATCO Pipelines' 3.0 per cent inflation factor applied to the forecast property tax mill rate for 2013 and 2014 is consistent with the five-year, year-over-year average increase in property taxes for 2008-2012.[217] Accordingly, ATCO Pipelines' forecast taxes – other than income are approved as filed.

8 Depreciation

352. In its application, ATCO Pipelines filed depreciation evidence,[218] including a depreciation study[219] prepared by Earl Robinson of AUS Consultants as of December 31, 2011. Mr. Robinson had been directed by ATCO Pipelines to recommend new depreciation rates for the 2013 and 2014 test years, on a combined north-south basis "using the same methodology contained in the Depreciation Settlement that was approved in Decision 2003-100."[220]

353. In preparing his depreciation study, Mr. Robinson conducted a detailed analysis of ATCO Pipelines' fixed asset books and records through to December 31, 2011. The historical plant records for each account were assembled into a depreciation database upon which detailed service life and net salvage analysis was performed using standard depreciation procedures.[221] ATCO Pipelines clarified in an information response that the service life and net salvage data relied upon to perform the analysis did not include any forecast addition, retirement or net salvage transactions.[222]

354. Mr. Robinson indicated that the information stemming from the historical life and net salvage indications in the study should be used as a benchmark to estimate both future service life and net salvage trends.

215 Exhibit 34.03, PDF page 121.
216 Exhibit 34.03, PDF page 114.
217 Exhibit 62.01, UCA-AP-79(b).
218 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation.
219 Exhibit 4, ATCO's Section 4.4.1, depreciation study as of December 31, 2011.
220 Exhibit 34.03, ATCO's refiled application, Section 4.4, page 2 of 5 (PDF page 116 of 223).
221 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation, page 10 of 54.
222 Exhibit 61.01, AUC-AP-50.

355. ATCO Pipelines provided a schedule of its net depreciation provision which has been reproduced below.

Table 13. Summary of ATCO Pipelines depreciation and amortization expense

Depreciation and amortization expense	2011 actual(1)	2012 estimate(1)	2013 forecast current rates(1)	2014 forecast current rates(1)	2013 forecast proposed rates(2)	2014 forecast proposed rates(2)
	($000)					
Depreciation expense	46,493	48,448	46,714	50,911	51,346	56,099
Less: amortization of contributions	2,986	2,971	2,918	2,903	2,764	2,806
Net depreciation expense	**43,507**	**45,477**	**43,796**	**48,008**	**48,582**	**53,293**

Note (1): Exhibit 34.03, ATCO's refiled general rate application schedules, schedule 4.4-1 (PDF page 119 of 223).
Note (2): Exhibit 61.05, information response AUC-AP-41(b), Deprn Summary tab, and Exhibit 61.07, information response AU-AP-41(d), Amort Summary tab.

356. Mr. Robinson indicated that the revised annual depreciation rates and expense are the result of both changes in the estimated service lives and salvage factors, and reflected the impact of ATCO Pipelines' property changes since its most recent depreciation study, which had been conducted in 2005.[223]

357. ATCO Pipelines examined the service life and/or survivor curve depreciation parameters last approved in Decision 2010-228, respecting its 33 depreciation study accounts, and proposed life-curve adjustments for 17 of the 33 accounts and salvage rate adjustments for 13 of the 33 accounts. Included in these 33 accounts was the proposed addition of five new property accounts, three of which ATCO Pipelines asserted were required due to the implementation of IFRS.

358. The UCA took issue with the proposals for nine of the accounts related to service life and Iowa curve recommendations[224] and 21 of the accounts related to the net salvage percentages.[225] The UCA's objection to ATCO Pipelines' proposals for net salvage stemmed from the UCA's recommendation to adopt an alternative net salvage analysis methodology in its depreciation study.

359. The UCA submitted evidence prepared by Michael Majoros of Snavely King Majoros & Associates, Inc. to provide an opinion on the reasonableness of ATCO Pipelines' depreciation proposals for 2013 and 2014 as developed by AUS Consultants in its depreciation study. Further, Mr. Majoros was asked to provide alternative recommendations if warranted.[226]

360. Mr. Majoros came to two primary conclusions as a result of his assignment. His first conclusion was that Mr. Robinson substantially understated the lives of several plant accounts, and his second conclusion was that the traditional method of estimating future net salvage

223 Exhibit 4, ATCO's Section 4.4.1, page 1-7 (PDF page 13 of 449).
224 Accounts 452.00, 454.00, 456.00, 462.00, 465.00, 467.00 and 482.00.
225 Accounts 451.00, 452.00, 453.00, 454.00, 455.00, 456.00, 457.00, 461.00, 462.00, 463.00, 464.00, 465.00, 466.00, 466.01, 467.00, 467.01, 469.00, 482.00, 484.00, 484.03 and 485.00.
226 Exhibit 81.03, direct testimony of M. Majoros, page 2.

percentages, as used by Mr. Robinson, overstated “the cost of removal amount”[227] that ATCO Pipelines is going to actually incur.

361. Mr. Majoros prepared an independent study resulting in different depreciation rates from those proposed by ATCO Pipelines. Mr. Majoros provided a comparison of the impact of the depreciation positions of both Mr. Majoros and ATCO Pipelines, based on an analysis using plant balances as of December 31, 2011 which the Commission has reproduced in the following table.

Table 14. Comparison of impact of depreciation proposals based on original cost and accumulated depreciation as of December 31, 2011[228]

	Using currently approved depreciation parameters	Using ATCO proposed depreciation parameters	Using Majoros proposed depreciation parameters
	($000)		
Annual depreciation expense	36,046	39,516	26,362
Depreciation reserve variance amortization	1,016	2,431	(1,427)
Total depreciation expense	37,062	41,947	24,935

362. In addition to its concerns respecting ATCO Pipelines’ net salvage analysis, other depreciation issues raised by the UCA were related to the grouping procedure used for the amortization of reserve differences calculations conducted by Mr. Robinson, and certain IFRS related concerns.

363. The Commission has summarized the depreciation parameters currently approved and proposed by parties in the following table:

227 Exhibit 81.03, direct testimony of M. Majoros, page 3.
228 Exhibit 81.03, direct testimony of M. Majoros, page 9.

Table 15. Summary of approved and proposed depreciation parameters

		ID 13, UCA.AP.127(h)		Ex 61.01			
		2008/2009 - D2009-003		AUC.AP.61		Ex 81.07	
		ID 223, Ex 14		(PDF pages 360 to 362 of 964)		MJM-4	
		2010/2012 - D2010-228		2013/2014		2013/2014	
		Approved - NSP		Proposed		MJM Proposed	
		Currently approved		ATCO Pipelines		UCA	
		Parameters		Proposed parameters		Proposed parameters	
		Life-curve	Net Salvage	Life-curve	Net salvage	Life-curve	Net salvage
	Underground Storage Plant						
45100	Land Rights	75-R5	-	75-R5	-	75-R5	-1
45200	Structures & Improvements	30-R2.5	-10	30-R2.5	-5	45-R4	-
45300	Wells	50-R4	-20	50-R4	-30	50-R4	-6
45400	Well Equipment	24-R3	-20	24-R3	-25	30-S1	-
45500	Field Lines	25-R4	-5	25-R4	-5	25-R4	-1
45600	Compressor Equipment	25-R3	-5	30-R3	-	40-R2.5	-5
45700	Measuring & Regulating Equipment	30-R3	-10	35-R4	-10	35-R4	-1
45701	Measuring & Regulating Electronic	13-R4	-	13-R4	-	13-R4	-
45900	Other Underground Storage Equip.	40-R2	-	36-S4	-	36-S4	-
	Transmission Plant						
46100	Land Rights	82-R5	-20	82-R5	-20	82-R5	-
46200	Compressor Structures & Improvements	26-L2	-5	35-L1.5	-5	42-L0.5	-
46300	Measuring & Regulating Structures	45-R2.5	-15	50-R2	-25	50-R2	-6
46400	Other Structures & Improvements	33-R4	-20	33-R4	-25	33-R4	-
46500	Mains	59-R4	-30	62-R2.5	-50	81-R4 or 86-R4 (1)	-7
46501	In Line Inspection	-	-	8-R4	-	10-R4	-
46600	Compressor Equipment	24-L1.5	-5	32-R0.5	-20	32-R0.5 or 37-R0.5 (1)	-6
46601	Compressor Equipment Electronic	15-R5	-	20-R3	-15	20-R3	-8
46603	Compressor Overhaul	-	-	8.3-SQ	-	8.3-SQ	-
46604	Compressor Overhaul Turbo	-	-	2.9-SQ	-	2.9-SQ	-
46700	Measuring & Regulating Equipment	30-R1.5	-20	35-R1	-25	42-R0.5	-4
46701	Measuring & Regulating Electronic	17-R5	-	20-R3	-20	20-R3	-10
46702	Measuring Computer Equipment	15-R3	-	15-R4	-	15-R4	-
46703	Meters	-	-	18-R5	-	18-R5	-
46800	Communications Structures & Equipment	25-R2.5	-	30-R2	-	30-R2	-
46900	Other Transmission Equipment	15-R1.5	-10	15-R1.5	-10	15-R1.5	-
	General Plant						
48200	Structures	37-R2.5	-5	34-R2.5	-5	37-R2.5	-
48400	Transportation Equipment	7-L2	15	7-L2	15	7-L2	-1
48401	Transportation Equipment (NGV)	7-L2	-	7-L2	-	7-L2	-
48402	Transportation Equipment (Ancillary)	6-L4	-	7-R5	-	7-R5	-
48403	Transportation Equipment (Trailers)	35-S4	-	16-R3	5	16-R3	-11
48500	Heavy Work Equipment	18-L1.5	15	18-R2	15	18-R2	-1
48800	Communication Equipment	17-S3	-5	10-L0	-	10-L0	-
49605	Equipment - Scada	-	-	8-R5	-	8-R5	-
Note (1) alternative recommendation							

8.1 Requirements of IFRS for componentization and reporting of net salvage

364. ATCO Pipelines described that because of its adoption of IFRS and in compliance with AUC Rule 026 which pertains to the implementation of IFRS, it had incorporated certain changes which affected its depreciation study and recommended parameters and depreciation rates for several accounts.[229]

[229] Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation, pages 34 and 35, accounts 465.00, 465.01, 466.00, 466.03, 466.04.

365. ATCO Pipelines stated that it had componentized three new asset sub-accounts; Account 465.01 – transmission – pipeline inspection costs, Account 466.03 – transmission – compressor overhauls and Account 466.04 – transmission – compressor overhauls turbo, from two accounts: Account 465.00 – transmission – mains, and Account 466.00 transmission – compressor equipment. ATCO Pipelines had estimated service life and curve parameters in the absence of historical records related to these accounts that were based on input from ATCO Pipelines personnel and estimations of time periods between overhauls and inspections.[230]

366. Mr. Majoros provided his opinion that ATCO Pipelines' new account proposals for major overhauls and pipeline inspection costs could lead to unfavorable results in the future and could result in an accelerated expensing of significant capital additions.[231]

367. Mr. Majoros confirmed his understanding that IFRS requirements were the reason for ATCO Pipelines' new accounting treatment for overhauls and inspection costs,[232] but nonetheless objected to ATCO Pipelines' componentization of these two items, which will result in Account 465.00 and Account 466.00 being amortized over periods shorter than they are currently being depreciated (before sub-categorization).

Commission findings

368. The determination and Commission findings respecting the depreciation parameters of service life, Iowa curve and net salvage, for both the original and newly-proposed accounts, is discussed in later sections of this decision.

369. ATCO Pipelines requested confirmation from the Commission that it could componentize pipeline inspection costs, in accordance with IFRS. Such a request is permitted under Section 6(2)(j)(iii)(B) of the AUC's Rule 026. The Commission considers that such a request to componentize three sub-accounts (accounts 465.01 – transmission – in line inspections, 466.03 transmission – compressor overhaul, and 466.04 transmission – compressor overhaul turbo) is reasonable, as it aligns the regulatory requirement with the IFRS requirement. The Commission grants the request from ATCO Pipelines that componentization of pipeline inspection costs and compressor overhauls be permitted for regulatory purposes.

8.2 Service life and Iowa curve adjustments

370. The purpose of utility depreciation is to allocate the cost of the utility's assets over its estimated useful service life, for the purposes of capital recovery. The average service life resulting from an Iowa curve estimation is the main determining factor of the depreciation rate which, when applied to the cost of the utility assets, determines depreciation expense. During the course of a depreciation study, such as the one filed in this proceeding, service life and Iowa curve recommendations are reviewed by parties with the objective of ensuring that the resultant depreciation rates and expense are supported. This section examines the adjustments proposed by parties respecting the average service life and Iowa curve applicable to each account.

371. ATCO Pipelines' proposed service lives for its asset accounts were set out in the depreciation study prepared by Mr. Robinson and presented in Exhibit 4 of the application. The depreciation accrual rates and accrued depreciation were calculated using the straight line

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230 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation, pages 34 and 35.
231 Exhibit 81.03, direct testimony of M. Majoros, page 8.
232 Exhibit 92.03, AUC-UCA-3(d).

method, the whole life basis and the ELG procedure for each depreciable group of assets as of December 31, 2013 and December 31, 2014.

372. Mr. Robinson indicated that the updated life-curve recommendations and resultant depreciation rates respecting ATCO Pipelines' plant accounts were a result of reflecting estimates obtained through the in-depth analysis of ATCO Pipelines' most recent data as of December 31, 2011, together with an interpretation of ongoing and anticipated future events.[233]

373. Mr. Robinson used various service life analysis techniques, such as a retirement rate analysis, in combination with discussions with management to obtain an overview of any factors or anticipated events which could have a bearing on the service lives of ATCO Pipelines' property.

374. Responses to information requests revealed that Mr. Robinson conducted physical inspections as being representative of the general good condition of ATCO Pipelines' plant assets. Mr. Robinson also relied on his past experience in the preparation of the depreciation study, and did not rely on any peer analysis or industry comparisons.[234]

375. Mr. Robinson developed observed life tables from grouping detailed vintage level information and identifying the level of retirements occurring through each successive age. Comparing the observed lives to standard Iowa curves resulted in estimates of each property group's historically achieved average service life.[235]

376. As indicated earlier in this decision, Mr. Robinson proposed service life and/or survivor curve adjustments for 17 of its 33 depreciation study accounts, in addition to recommending life-curve parameters for its five proposed new plant accounts. The UCA took issue with the service life and survivor curve recommended changes of ATCO for seven of the accounts (accounts 456.00, 462.00, 465.00, 465.01, 466.00, 467.00 and 482.00), and recommended adjustments to two accounts 452.00 and 454.00; accounts for which ATCO Pipelines had not proposed a change.

377. Mr. Majoros conducted a service life analysis which included an independent retirement rate analysis, using a similar approach to that of Mr. Robinson. However, Mr. Majoros used several constraints in his Iowa curve fitting routine to obtain results. Mr. Majoros stated that he used the shortest and longest service lives indicated in the industry statistics provided by Mr. Robinson in his depreciation study,[236] and set the parameters in his software to determine the best life fit for each account within those bounds. Mr. Majoros stated that in using this method, even if the data would support a much longer life, the curve fitting process ended at the upper limit of the industry range. Mr. Majoros also employed the use of T-cuts (to truncate the fitting to reduce the possibility of outliers) in addition to eliminating all L-type and O-type Iowa curve indications.[237]

378. Mr. Majoros indicated that his service life analysis which recommended life-curve combinations based primarily upon indication of a least sum of squared differences (least-

233 Exhibit 4, ATCO submission, Section 4.4.1, page 1-4 (PDF page 10 of 449).
234 Exhibit 61.01, information responses, AUC-AP-48 and AUC-AP-52.
235 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation, page 10 and 11 of 54.
236 Exhibit 4, ATCO submission, Section 4, study results.
237 Exhibit 81.03, direct testimony of M. Majoros, page 20 to 22.

squares best fit, or SSD),[238] had resulted in "more appropriate depreciation periods and curves."[239] Further, he asserted that his recommendations did not contain any bias towards shorter lives, in contrast to those recommended by Mr. Robinson.[240]

379. The CCA did not file depreciation evidence but indicated its support in reply argument for the UCA's recommended life adjustment for "Accounts 452, 454, 456, 462, 465, 467 and 482."[241]

8.2.1 Account 452.00 – underground storage – structures and improvements

380. ATCO Pipelines did not propose a change to its life-curve combination for this account from the previously approved 30-R2.5 life-curve, nor did ATCO Pipelines provide any analysis or written indication that the current life-curve combination continues to be appropriate.

381. Mr. Majoros recommended a life-curve combination of 45-R4 based on the indication of his service life analysis determining that the proposal would result in a statistical least-squares best fit.

Commission findings

382. There was little information supporting the continued use of a 30-R2.5 life-curve combination was provided by ATCO Pipelines.

383. The Commission has determined that over 65 per cent of the assets in service for this account are from the oldest vintage of 1984 and which are now approaching the currently approved average service life of 30 years and views this as an indication that an examination of the service life for this account is warranted.

384. The Commission acknowledges that while there is merit in knowing which life-curve combination results in the least-squares best fit for a particular account, it should not be the sole basis upon which a life-curve recommendation is considered. This is because there are often other factors, such as professional judgement or the knowledge of anticipated events that may affect the estimation of depreciation parameters that cannot be captured by a purely statistical analysis such as the one provided by Mr. Majoros.

385. Given that ATCO Pipelines' Account 452.00 - underground storage – structures and improvements, represents less than 1.0 per cent of its total study assets, the Commission considers that it is not necessary to delay making a finding on the life-curve parameters for this account. Accordingly, the Commission directs ATCO to maintain the existing 30-R2.5 life-curve for account 452.00 until it files its next depreciation study. The Commission expects that at that time ATCO Pipelines will file a complete analysis supporting its recommendations on this account.

238 Exhibit 81.09, Attachment MJM-4, Majoros life analysis.
239 Exhibit 81.03, direct testimony of M. Majoros, page 24.
240 Exhibit 81.08, demonstrates bias towards shorter lives.
241 Exhibit 115.01, paragraph 9.

8.2.2 Account 454.00 – underground storage – well equipment

386. Mr. Robinson stated that an analysis of historical data for this account continued to produce an indication of a 24-R3 life-curve combination. Consequently, ATCO Pipelines did not propose a change to the previously approved 24-R3 life-curve parameters.

387. Mr. Majoros opined that the 24-R3 life-curve proposal of ATCO Pipelines represented a reasonable Iowa fitted curve result. However, he recommended a life-curve combination of 30-S1 based on the indication of his service life analysis determining that the proposal would result in a least-squares best fit.

Commission findings

388. Similar to the observations noted for account 452.00, the Commission finds merit in knowing which life-curve combination results in the least-squares best fit for a particular account, as provided by Mr. Majoros, but that it should not be the sole basis upon which a recommendation should be considered. Further, Mr. Majoros did not provide an explanation for his view, in the case of this account, that the ATCO Pipelines life-curve recommendation was reasonable, yet he chose to make recommendations based on the least-squares best fit.

389. When asked, Mr. Majoros did not provide a reason for not recommending depreciation parameters based on the indications of his least-squares best fit for this account, nor was he able to explain how he applied his judgement or indicate any other fitting considerations he would have used in making his recommendations.[242]

390. The Commission has compared the fitted curve results provided by Mr. Majoros with ATCO Pipelines' proposals and concludes that the proposals of both ATCO Pipelines and the UCA present reasonable Iowa fitted curve results.

391. However, given that ATCO Pipelines' analysis concluded that a change in life-curve combination for this account is not required at this time, the Commission directs ATCO Pipelines to maintain the existing 24-R3 life-curve parameters for Account 454.00

8.2.3 Account 456.00 – underground storage – compressor equipment

392. ATCO Pipelines' proposed life-curve combination of 30-R3 for this account, was an increase of 5.0 years to the previously approved 25-R3 life-curve combination. This was recommended by ATCO Pipelines based on consideration of the results of historical analysis and the current age of the property.

393. Mr. Majoros did not recommended a life-curve combination of 76-R0.5 based on the indications of his service life analysis determining that the proposal would result in a statistical least-squares best fit. Instead Mr. Majoros proposed a life-curve combination of 40-R2.5.

394. When asked, Mr. Majoros did not provide a reason for not recommending depreciation parameters based on the indications of his least-squares best fit for this account, nor was he able to explain how he applied his judgement or indicate any other fitting considerations he used in making his recommendations.[243]

[242] Exhibit 92.03, information response AUC-UCA-5.
[243] Exhibit 92.03, information response AUC-UCA-5.

Commission findings

395. The Commission has compared the fitted curve results provided by Mr. Majoros and concludes that the proposals of both ATCO Pipelines and the UCA present reasonable Iowa fitted curve results.

396. However, as Mr. Majoros was unable to provide support for his recommendations beyond his least-squares best fit analysis, the Commission accepts the evidence of Mr. Robinson and finds the proposal for a 30-R3 life-curve for Account 456.00 to be reasonable at this time. The proposal is consequently approved.

8.2.4 Account 462.00 – transmission – compressor structures and improvements

397. ATCO Pipelines' proposed life-curve combination of 35-L1.5 for this account was both an increase of 9.0 years and modification of the curve and mode from the previously approved 26-L2 life-curve combination. This recommendation was based on the results of the analysis of historical data and consideration of various building moves in the future. The change to an L1.5 curve (and dispersion factor) reflects expectations for more frequent interim retirements due to the noted building moves.

398. Mr. Majoros recommended that both the life and curve combination change to a 40-L0.5 based on the indication of his service life analysis determining that the proposal would result in a statistical least-squares best fit.

Commission findings

399. Similar to findings for previous accounts, the Commission finds merit in knowing which life-curve combination results in the least-squares best fit for a particular account, as provided by Mr. Majoros, but that it should not be the sole basis upon which a life-curve recommendation is considered. Further, Mr. Majoros' proposed increase of 14 years to the life parameter represents a significant and material change to this account.

400. The Commission has compared the fitted curve results provided by Mr. Majoros and concludes that the proposals of both ATCO Pipelines and the UCA present reasonable Iowa fitted curve results. However, at ages zero to 30 (which represents the majority of exposures to retirements), the life-curve combination proposed by ATCO Pipelines provides for a better fit.

401. The Commission accepts the evidence of Mr. Robinson and finds the proposal for a 35-L1.5 life-curve for Account 462.00 as recommended by ATCO Pipelines to be reasonable at this time. It is therefore approved.

8.2.5 Account 465.00 – transmission – mains

402. ATCO Pipelines' proposed life-curve combination of 62-R2.5 for this account, was both an increase of three years and modification of the curve and mode, from the previously approved 59-R4 life-curve combination. This was recommended by ATCO Pipelines based on an analysis of the historical data, despite the potential and probability for increased future levels of mains retirements resulting from continuing focus on pipeline integrity. Mr. Robinson indicated that the integrity issues in combination with ongoing relocations may result in shorter lives in future years.

403. As discussed earlier in this decision, this account was subject to componentization related to IFRS requirements, and for which ATCO Pipelines had extracted and created a sub-account (Account 465.01) of approximately $1.4 million of the total $830.0 million in historic transmission mains costs.

404. Mr. Majoros did not recommend a life-curve combination based on the indications resulting from his statistical least-squares best fit analysis. Instead Mr. Majoros proposed a life-curve combination of 81-R4.

405. When asked why he did not recommend the life-curve combination indicated by the least-squares analysis, Mr. Majoros indicated that, while the best fit was an 81-L1.0, after eliminating all the “L”, low modal “R” “S” and “O” curves based on the ATCO Pipelines’ Iowa curve shape concerns, the best fit then indicated an 81-R4, which is what was initially recommended.[244]

406. Mr. Majoros considered that the impact of the reclassification of $1.4 million from Account 465.00 into the new Account 465.01 could result in the service life of the remaining assets in plant Account 465.00 being lengthened.[245]

407. When asked to clarify whether Mr. Robinson had lengthened the service life of the original Account 465.00 from 59 years to 62 years, Mr. Majoros agreed, but took this as an indication that the previous 59 year service life was too short, and stated that his own life recommendation for the Account 465.00 was 81 years.[246]

408. In argument, Mr. Majoros indicated that should the Commission accept the new IFRS related sub-account (Account 465.01) related to pipeline inspections, the average service life for the original account (Account 465.00) should be extended by five years as a consequence.[247] The Commission understands that Mr. Majoros’ final recommendation for account 465.00 is a life-curve combination of 86-R4.

409. In reply argument, the CCA indicated its agreement with the UCA for an increase of five years in the service life for this account.[248]

Commission findings

410. The Commission is unconvinced that reclassifying $1.4 million of a total $830 million from Account 465.00 into Account 465.01 will have the dramatic life lengthening effect on the remaining assets in Account 465.00 as asserted by Mr. Majoros.

411. The Commission considers that the minimum increase of 22 years to the life parameter as proposed by Mr. Majoros would be a significant and material change to this account, which represents over 65 per cent of all the study assets of ATCO Pipelines.

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244 Exhibit 92.03, information response AUC-UCA-5.
245 Exhibit 81.03, direct testimony of M. Majoros, page 12.
246 Exhibit 92.03, information response AUC-UCA-4(a,b).
247 Exhibit 114.02, UCA argument, paragraph 84.
248 Exhibit 115.01, CCA reply argument, paragraph 9 and 10.

412. Further, the Commission has compared the fitted curve results provided by Mr. Majoros and observes that at all ages through to 68 years, the life-curve combination proposed by ATCO Pipelines provides for a better fit.

413. The Commission accepts the evidence of Mr. Robinson in this respect rather than that of Mr. Marjoros and finds the proposal for a 62-R2.5 life-curve for Account 465.00 to be reasonable at this time. The proposal is consequently approved.

8.2.6 Account 465.01 – transmission – in-line inspections

414. In compliance with the requirements of IFRS, ATCO Pipelines proposed to componentize, through reclassification of approximately $1.4 million in pipeline in-line inspection costs, to a separate Account 465.01. These inspection costs would have, until the reclassification, formed a portion of the approximately $830 million in Account 465.00. ATCO's application indicated a life-curve combination of 10-R4. ATCO Pipelines later clarified that it should have indicated that an estimate of eight years[249] between inspections was utilized to calculate the annual depreciation rates and amortizations for this new account, resulting in a life-curve recommendation of 8-R4.

415. Mr. Majoros recommended a life-curve combination of 10-R4 for this account but did not provide reasons for doing so.[250]

Commission findings

416. The Commission assumes that the 10-R4 recommendation of Mr. Majoros was made on the basis of the information provided in ATCO Pipelines' application, rather than ATCO Pipelines' clarified life-curve combination provided in its IR response as noted above.

417. An estimated life of eight years based on the time between in-line inspections is practical. The Commission accepts the evidence of Mr. Robinson and finds the proposal for a 8-R4 life-curve for Account 465.01 to be reasonable at this time. The proposal is consequently approved.

8.2.7 Account 466.00 – transmission – compressor equipment

418. ATCO Pipelines' proposed life-curve combination of 32-R0.5 for this account was both an increase of eight years and modification of the curve and mode from the previously approved 24-L1.5 life-curve combination. This was recommended by ATCO Pipelines based on its completion of the analysis of the historical data and the componentization required of this account under IFRS. Mr. Robinson indicated that Account 466.00 should continue to be monitored to indicate whether the increased service life proposed in this study will continue into the future.

419. As discussed earlier in this decision, and similar to account 465.00, this account was subject to componentization related to IFRS requirements, and for which ATCO Pipelines had extracted approximately $7.0 million in compressor overhaul costs into two separate accounts (accounts 466.03 and 466.04). These overhaul costs would have, until the reclassification, formed a portion of the approximately $75.0 million in Account 466.00. ATCO Pipelines clarified that for accounts 466.03 and 466.04, an estimate of 8.3 years and 2.9 years

[249] Exhibit 61.01, information response AUC-AP-61(b).
[250] Exhibit 81.09, Attachment MJM-4, Majoros life analysis, page 2.

respectively[251] occurring between compressor overhauls and compressor turbo overhauls, was used to calculate the annual depreciation rates and amortizations for these new accounts.

420. Mr. Majoros did not recommended a life-curve combination of 36-R1.0, based on the indications of his statistical least-squares best fit analysis.

421. Instead, Mr. Majoros recommended the same life-curve combination of 32-R0.5 for Account 466.00 as ATCO Pipelines, but did not provide reasons for doing so.[252] However, Mr. Majoros viewed that the impact of the reclassification of $7.0 million from Account 466.00 into the two new accounts (466.03 and 466.04), could result in the service life of the remaining assets in plant Account 466.00 being lengthened.[253]

422. When asked to clarify whether Mr. Robinson had lengthened the service life of the original Account 466.00 from 24 years to 32 years, Mr. Majoros agreed but took this as an indication that the previous 24-year service life was too short, and stated that his own life recommendation for the Account 466.00 would be much longer than 36 years.[254]

423. In argument, Mr. Majoros indicated that should the Commission accept the new IFRS related sub-account (accounts 466.03 and 466.04) related to compressor overhauls, the average service life for the original account (Account 466.00) should be extended by five years.[255]

424. In reply argument, the CCA indicated its agreement with the UCA for an increase of five years in the service life for this account.[256]

Commission findings

425. The Commission is unconvinced that reclassifying $7.0 million of a total $75 million from Account 466.00 into accounts 466.03 and 466.04 will have the dramatic life lengthening on the remaining assets in Account 466.00 that is effect asserted by Mr. Majoros.

426. Further, the Commission observes that ATCO Pipelines has increased the estimated service life of this account by eight years and considers that this reasonably addresses any life lengthening impacts asserted by Mr. Majoros.

427. The Commission accepts the evidence of Mr. Robinson and finds the proposal for a 32-R0.5 life-curve for Account 466.00 to be reasonable at this time. The proposal is approved.

8.2.8 Account 467.00 – transmission – measuring and regulating equipment

428. ATCO Pipelines' proposed life-curve combination of 35-R1 for this account was both an increase of five years and modification of the curve and mode from the previously approved 30-R1.5 life-curve combination. This was recommended by ATCO Pipelines based on an analysis of historical data and consideration of prospective activities. Mr. Robinson also indicated that there is an anticipation of increased retirements of older vintage property, which will have an impact on the per cent surviving levels from current study levels.

[251] Exhibit 61.01, information response AUC-AP-61(b).
[252] Exhibit 81.09, Attachment MJM-4, Majoros life analysis, page 2.
[253] Exhibit 81.03, direct testimony of M. Majoros, page 12.
[254] Exhibit 92.03, information response AUC-UCA-4(a,b).
[255] Exhibit 114.02, UCA argument, paragraph 84.
[256] Exhibit 115.01, CCA reply argument, paragraph 9 and 10.

429. Mr. Majoros recommended a life-curve combination of 42-R0.5 based on the indication of his service life analysis determining that the proposal would result in a statistical least-squares best fit. When asked, Mr. Majoros did not explain how he applied his judgement or indicate any other fitting considerations justifying his recommendations.[257]

Commission findings

430. Similar to the findings for previous accounts, the Commission considers it relevant which life-curve combination results in the least-squares best fit for a particular account, as provided by Mr. Majoros, but that it should not be the sole basis upon which a life-curve recommendation is proposed.

431. The Commission finds that Mr. Robinson provided a persuasive explanation of the other variables, both historical and prospective in nature, which he considered supported his recommendation; whereas Mr. Majoros did not provide for any other considerations beyond his least-squares best fit analysis.

432. The Commission has compared the fitted curve results provided by Mr. Majoros and observes that the proposals of both ATCO Pipelines and the UCA present reasonable Iowa fitted curve results. However, Mr. Majoros life-curve selection appeared to rely more on fitting to data points that represent less significant exposures to retirements.

433. The Commission accepts the evidence of Mr. Robinson and finds the proposal for a 35-R1 life-curve for Account 467.00 to be reasonable at this time, and is therefore approved.

8.2.9 Account 482.00 – general plant – structures

434. ATCO Pipelines' proposed life-curve combination of 34-R2.5 for this account, was a decrease of three years to the previously approved 37-R2.5 life-curve combination. This was recommended by ATCO Pipelines based on an analysis of historical data and the possibility that some increased retirements will occur in coming years. Mr. Robinson also considered that "the overall life of this category of facilities is impacted by the changing operation and market conditions"[258] within ATCO Pipelines' service territory.

435. Mr. Majoros indicated that while the least-squares best fit indicated a 48-S0 life-curve combination, because of his constraints of not considering any S0 or L curve results, the next best fit was 36-R2. Mr. Majoros compared that to the existing life of 37-R5 and recommended a retention of the existing life-curve based on that analysis.[259]

Commission findings

436. The Commission has compared the fitted curve results provided by Mr. Majoros and observes that the proposals of both ATCO Pipelines and the UCA present reasonable Iowa fitted curve results.

437. The Commission does not consider that in these circumstances, changing market conditions should be a factor in determining the service life of a utility asset. On that basis, the

[257] Exhibit 92.03, information response AUC-UCA-5.
[258] Exhibit 4, ATCO submission, Section 4, Account 482 (PDF page 91 of 449).
[259] Exhibit 92.03, information response AUC-UCA-5.

Commission does not approve the proposal of ATCO Pipelines and directs the retention of the current life-curve combination of 37-R2.5.

8.2.10 Remaining depreciation study accounts

438. ATCO Pipelines also proposed changes to previously approved life and Iowa curve parameters for the following accounts:[260]

a. Account 457.00 – underground storage – measuring and regulating equipment – (previously approved 30-R3, proposed 35-R4)

b. Account 459.00 – underground storage – other underground storage equipment – (previously approved 40-R2, proposed 36-S4)

c. Account 463.00 – transmission – measuring and regulating structures – (previously approved 45-R2.5, proposed 50-R2)

d. Account 466.01 – transmission – compressor equipment electronic – (previously approved 15-R5, proposed 20-R3)

e. Account 467.01 – transmission – measuring and regulating electronic – (previously approved 17-R5, proposed 20-R3)

f. Account 467.02 – transmission – measuring computer equipment – (previously approved 15-R3, proposed 15-R4)

g. Account 468.00 – transmission – communication structures and equipment – (previously approved 25-R2.5, proposed 30-R2)

h. Account 484.02 – general plant – transportation equipment (ancillary) – (previously approved 6-L4, proposed 7-R5)

i. Account 484.03 – general plant – transportation equipment (trailers) – (previously approved 35-S4, proposed 16-R3)

j. Account 485.00 – general plant – heavy work equipment – (previously approved 18-L1.5, proposed 18-R2)

k. Account 488.00 – general plant – communication equipment – (previously approved 17-S3, proposed 10-L0)

439. Mr. Majoros did not raise issues specific to the life and Iowa curve proposals of ATCO Pipelines for these accounts and proposed the same parameters as those recommended by ATCO Pipelines in its depreciation study.

[260] "Previously approved" refers to those life-curve parameters approved in Decision 2010-228; "proposed" refers to those life-curve parameters recommended in this proceeding by ATCO.

440. ATCO Pipelines did not propose changes to previously approved life and Iowa curve parameters for the following accounts:[261]

a. Account 451.00 – underground storage – land rights – (previously approved and proposed 75-R5)

b. Account 453.00 – underground storage – wells – (previously approved and proposed 50-R4)

c. Account 455.00 – underground storage – field lines – (previously approved and proposed 25-R4)

d. Account 457.01 – underground storage – measuring and regulating equipment (previously approved and proposed 13-R4)

e. Account 461.00 – transmission – land rights – (previously approved and proposed 82-R5)

f. Account 464.00 – transmission – other structures and improvements – (previously approved and proposed 33-R4)

g. Account 469.00 – transmission – other transmission equipment – (previously approved and proposed 15-R1.5)

h. Account 484.00 – general plant – transportation equipment (previously approved and proposed 7-L2)

i. Account 484.01 – general plant – transportation equipment (NGV) – (previously approved and proposed 7-L2)

441. Mr. Majoros did not raise any issues specific to the life and Iowa curve proposals of ATCO Pipelines for these accounts and proposed the same parameters as those recommended by ATCO Pipelines in its depreciation study.

442. ATCO Pipelines proposed to implement life and Iowa curve parameters for the following new accounts:

a. Account 465.01 – transmission – in line inspection (proposed 8-R4)

b. Account 466.03 – transmission – compressor overhaul (proposed 8.3-SQ)

c. Account 466.04 – transmission – compressor overhaul turbo (proposed 2.9-SQ)

d. Account 467.03 – transmission – meters (proposed 18-R5)

e. Account 496.05 – general plant – equipment – SCADA (proposed 8-R5)

443. Other than the componentization concerns respecting Account 465.01, 466.03 and 466.04 of the UCA, Mr. Majoros did not raise any issues specific to the life and Iowa curve proposals of

[261] "Previously approved" refers to those life-curve parameters approved in Decision 2010-228; "proposed" refers to those life-curve parameters recommended in this proceeding by ATCO.

ATCO Pipelines for these accounts, and proposed the same parameters as those recommended by ATCO Pipelines in its depreciation study.

Commission findings

444. The Commission has examined the evidence in the depreciation testimony[262] and study[263] with respect to the methodology used and described in Section 3, the study results provided in Section 4, the service life and retirement rate analysis, calculated annual accrual rates provided in sections 5 and 6, the composite remaining life calculations provided in Section 7 and the depreciation reserve calculation provided in Section 8. The Commission has also considered the responses to information requests provided by ATCO Pipelines.

445. The Commission observed the material decrease in service life recommended by ATCO Pipelines for Account 484.03 – general plant – transportation equipment (trailers) from an approved 35 years to a proposed 16 years. However, considering that an examination of the vintages of assets still in service for this account indicates that there is no asset in service that is of a vintage older than 2005, the Commission finds that the reduction in average service life is reasonable.

446. The Commission finds that the evidence on record with respect to the other accounts identified above supports the recommendations made by ATCO Pipelines and the life-curve (including dispersion pattern) parameters for these accounts are approved as proposed.

8.3 Net salvage rate adjustments

447. In utility depreciation practices, net salvage refers to the difference between what the company anticipates it will cost to retire its assets from utility service (cost of removal), and any funds it receives as a result of the asset retirement (gross salvage). The estimate of net salvage is recovered as a component of depreciation rates throughout the life of the assets with the expectation that when assets are retired, any expenditures necessary to remove it from service have been made available to the utility through its depreciation practices. During the course of a depreciation study, such as the one filed in this proceeding, a net salvage analysis is undertaken with the objective of ensuring that the net salvage being collected continues to be indicative of future retirement cost expectations. This section examines the adjustments proposed by parties for the net salvage per cent for each account and the persuasiveness of the recommendations made therein.

448. As indicated earlier in this decision, Mr. Robinson proposed net salvage adjustments for 13 of its 33 depreciation study accounts, in addition to recommending net salvage parameters of 0.0 per cent, for its five proposed new plant accounts. The UCA took issue with the net salvage recommendations for 21 of the accounts in total (accounts 452.00, 453.00, 454.00, 455.00, 456.00, 457.00, 461.00, 462.00, 463.00, 464.00, 465.00, 466.00, 466.01, 467.00, 467.01, 469.00, 482.00, 484.00, 484.03, 485.00), and recommended adjustments to account 451.00; an account for which ATCO had not suggested a change.

[262] Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation.
[263] Exhibit 4, ATCO's Section 4.4.1, depreciation study as of December 31, 2011.

8.3.1 Net salvage analysis and methodology

449. Mr. Robinson prepared net salvage per cent estimates based on a traditional method which, like the service life analysis, used a net salvage database to "identify historical experience and trends to determine each property group's recommended net salvage factors,"[264] in combination with "any changes that are anticipated in the future."[265]

450. Net salvage experience was studied to determine the trends which have occurred in the past together with any changes that are anticipated in the future. Net salvage was expressed as a per cent of the actual net retirements costs over original cost of plant retired, and was calculated for each account on an annual basis. Further, Mr. Robinson prepared various three-year rolling band analysis, as well as a forecast based on ATCO Pipelines' entire historical salvage experience on an account by account basis.

451. Mr. Majoros took issue with two aspects of the net salvage analysis provided by Mr. Robinson: duplicative inflation built into ATCO Pipelines' recommendations and ATCO Pipelines' overall net salvage methodology.

452. Mr. Majoros provided in his evidence[266] an example of how, in his view, Mr. Robinson inflated, by 2.75 per cent per annum, the historical cost of removal of 83.58 per cent for Account 465.00, to arrive at a forecast cost of removal of 367.54 per cent.[267] Mr. Majoros asserted that Mr. Robinson using his professional judgement, then reduced the 367.54 per cent to 50 per cent, making it appearing reasonable.[268]

453. Mr. Majoros considered that Mr. Robinson did not appreciate the duplicative nature of the 2.75 per cent inflation rate, stating that the inflation embedded in the mechanics of the traditional approach already allowed for future inflation. Mr. Majoros stated that the traditional method does not contain an added inflation amount (such as the 2.75 per cent cited by the UCA) because one of the core assumptions of the traditional method is that past inflation can be assumed to be equivalent to future inflation.[269]

454. While Mr. Robinson used an inflation factor of 2.75 per cent in order to project and display a future net salvage per cent at the end of the average remaining life of an asset account, he clarified that in no way was this factor used or added to the recommended future net salvage per cent estimates in his study. Mr. Robinson stated that applying an inflation factor of 2.75 per cent to historic levels, was "simply an additional tool used to calculated and display the anticipated level of ultimate future net salvage."[270]

455. Further, Mr. Majoros asserted that the effect of allowing utilities to collect the inflated cost of removal in depreciation rates, is that it results in utilities building "huge regulatory liabilities as a result of the over-recovery, which they attempt to take into income rather than

264 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation, page 11 of 54.
265 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation, page 24 of 54.
266 Exhibit 81.02, Attachment MJM-5, Robinson NS example.
267 Calculated as 83.58 (per cent cost of removal)*1.0275 (per cent inflation factor)^54.6 (average remaining life in years) = 367.61 per cent.
268 Exhibit 81.03, direct testimony of M. Majoros, page 29.
269 Exhibit 114.02, UCA argument, paragraphs 103 and 104.
270 Exhibit 108.01, information response UCA-AP-122.

spending them on their intended purpose or returning them to ratepayers as the correct procedure for regulatory liabilities."[271]

456. Mr. Majoros also stated that based on ATCO Pipelines' audited financial statements for the year 2011 and upon the adoption of IFRS, "AP derecognized $29 million of regulatory liabilities and simultaneously took them into its 2011 income."[272]

457. Mr. Robinson cited the fact that Mr. Bell had confirmed that the negative salvage deferral amounts continued to exist in the regulatory liabilities of ATCO Pipelines' utility balance sheet.[273] When asked, Mr. Majoros also confirmed that the adjustment made by ATCO Pipelines to "derecognize" $29 million of regulatory liabilities was for financial reporting purposes.[274]

458. Mr. Robinson disputed the assertion of the UCA stating that "since the Negative Salvage Deferral continues to exist in AP's regulatory (Utility) balance sheet, there is no basis or validity to Mr. Majoros' claim that AP confiscated these balances by 'taking them into income' as a result of AP's conversion to IFRS."[275]

459. Mr. Majoros also proposed that ATCO Pipelines should change the overall methodology used for estimating its depreciation parameter of net salvage, stating that Mr. Robinson's traditional approach, amounted to "front-loading"[276] of future inflation in the net salvage component recovered in today's rates. Mr. Majoros asserted that the traditional method is contrary to proper matching of the costs of the consumption of utility plant to the period in which it is actually consumed and does not avoid inter-generational inequities.

460. Mr. Majoros "estimated that his net salvage proposal adds approximately $1.3 million to the recommended expense" based on 2011 plant balances.[277]

461. The premise of Mr. Majoros' method was that new plant additions or replacements are the primary driver for annual costs of removal and should be used to develop an appropriate net salvage expressed as a per cent of the actual net retirement costs over plant additions. This approach does not recover future estimated inflation costs, and takes the inflation out of future cost of removal ratios.[278]

462. When asked how Mr. Majoros' approach would ensure that the recovery through depreciation rates of expected net salvage would accumulate sufficiently to offset the retirement costs at some future point in time when the asset retires, Mr. Majoros responded that "inflation will be accounted for as it is incurred, because gross plant expenditures are also affected by inflation…"[279]

271 Exhibit 81.03, direct testimony of M. Majoros, page 30.
272 Exhibit 81.03, direct testimony of M. Majoros, page 31.
273 Exhibit 92.02, information response AP-UCA-4(a).
274 Exhibit 92.02, information response AP-UCA-25.
275 Exhibit 101.01, ATCO rebuttal, page 1.
276 Exhibit 81.03, direct testimony of M. Majoros, page 25.
277 Exhibit 92.03, information response AUC-UCA-14.
278 Exhibit 81.03, direct testimony of M. Majoros, page 31.
279 Exhibit 92.03, information response AUC-UCA-12.

463. Mr. Majoros described his approach as similar to both a present value method and constant dollar net salvage (CDNS) methodology.[280] His method, however, was unlike that of Mr. Robinson's in that "the cost of removal is derived from, and is a function of additions, not retirements."[281]

464. Mr. Robinson countered that Mr. Majoros' net salvage proposal has no merit and is irrational and further, that "there simply is no relationship between current additions to prior/replaced plant additions as suggested by Mr. Majoros."[282]

465. In rebuttal, Mr. Robinson stated that cost of removal is the end of life cost attributable to current plant in service and that the end of life cost has no connection or applicable relationship to the new additions currently being installed as replacements to the current retiring plant. Mr. Robinson considered that Mr. Majoros' proposal would simply defer cost recovery and result in inter-generational inequity.[283]

466. Mr. Robinson asserted that Mr. Majoros' proposal "is not supported by any depreciation textbook, treatise, or depreciation professional, and has no foundation within standard depreciation principles."[284]

Commission findings

467. There are two issues to be resolved concerning the evidence of Mr. Majoros on net salvage.

468. First, with respect to the example provided by Mr. Majoros for Account 465.00, the net salvage indicated by Mr. Robinson's analysis was -73.0 per cent based on a full historical analysis. Mr. Robinson did not inflate the -73.0 per cent by any amount in his recommended net salvage per cent, and the Commission observes that Mr. Robinson in fact, proposed a net salvage of -50.0 per cent for this account.

469. Despite the observations noted by Mr. Majoros in his evidence, the Commission accepts the evidence of Mr. Robinson that shows he did not inflate his recommendations of estimated percentage net salvage for any account of ATCO Pipelines'. Further, the Commission does not place any weight on the inference that Mr. Majoros has made in his assertion of excess collections of inflated cost of removal and certain adjustments required for the purposes of financial reporting.

470. The Commission therefore finds that Mr. Robinson has relied on a traditional approach for his analysis, which is the basis for ATCO Pipelines' recommendations on estimated percentage net salvage for the test period. The Commission concludes that Mr. Robinson's analysis did not result in applying the inflation factor of 2.75 per cent to any of the recommended net salvage per cents, as was asserted by the UCA.

471. Second, the Commission views the methodology proposed by Mr. Majoros as comparable to other present value methodologies, such as the CDNS method which has not been

280 Exhibit 92.03, information response AUC-UCA-13.
281 Exhibit 81.03, direct testimony of M. Majoros, page 30.
282 Exhibit 117.01, ATCO reply argument, paragraph 28.
283 Exhibit 101.02, rebuttal evidence of Earl M. Robinson, Q&A 22, page 16.
284 Exhibit 101.02, rebuttal evidence of Earl. M. Robinson, Q&A 26, page 18.

approved as a net salvage methodology in Alberta beyond the year 2004, when its use was discontinued as a result of Decision 2003-061.

472. Further, in an effort to estimate the magnitude of the proposals of Mr. Majoros, the Commission has examined the detailed depreciation calculation provided by ATCO Pipelines in Exhibit 61.05, and for Account 465.00 – transmission – mains, which comprises in excess of 65.0 per cent of all study assets for ATCO Pipelines. The Commission adjusted the net salvage rate proposed by ATCO Pipelines of -50.0 per cent (of the life rate of 1.83 per cent), to the -7.0 per cent (of the life rate of 1.83 per cent) proposed by Mr. Majoros, based on his net salvage methodology, and finds the impact on depreciation expense for 2013 alone for this account to be approximately $6.8 million,[285] all else being equal and before the impact of any 2013 capital additions.

473. The Commission considers that while there may be significant benefit accruing to current ratepayers as a result of lowered net salvage recovery through depreciation rates, there is the potential to allocate to future ratepayers the costs associated with the retirement of the assets used by today's ratepayers.

474. The Commission finds that the methodology proposed by Mr. Majoros would result in material impacts to the depreciation expense of ATCO Pipelines which would be in conflict with the Commission's objective of maintaining inter-generational equity. The Commission finds the traditional net salvage methodology used by ATCO Pipelines to be reasonable, and does not require any changes to ATCO Pipelines' net salvage methodology at this time.

475. Having rejected the proposal of Mr. Majoros with respect to net salvage, the Commission will evaluate the percentage net salvage recommendations of Mr. Robinson for accounts where ATCO Pipelines has suggested adjustments to the net salvage.

8.3.2 Account 453.00 – underground storage – wells

476. ATCO Pipelines recommended a net salvage of -30.0 per cent for Account 453.00 over the test period. This proposal reflects an increase of -10.0 per cent to the currently-approved net salvage of -20.0 per cent and was recommended based on the use of a traditional net salvage study.

477. There was limited historical net salvage information available that would have allowed for an informed annual or three-year moving analysis, however, over the period 1990 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year indicated an overall -102.0 per cent.

478. Industry statistics provided by Mr. Robinson indicate a range of 2.0 per cent to -6.0 per cent.

479. Mr. Robinson indicated that the required re-working of the wells will "not result in significant retirement amounts, but has and will continue to produce cost of removal."[286]

[285] Exhibit 61.05, information response, AUC-AP-41(b) Tab: 2013 Equal Life – Deprn Combined proposed rates: calculated as: ((.50 * 1.83) - (.07 * 1.83)) * $866,386,000 2013 opening balance account 465.00 = $6,818,458.

[286] Exhibit 4, ATCO submission, Section 4, Account 453 (PDF page 57 of 449).

Commission findings

480. There is insufficient historical information at this time, to determine whether the proposed increase in negative net salvage is reasonable. An examination of Section 9 of the depreciation study indicates that although there have been well retirements in recent years, there has been no cost of removal incurred since 1998 for this account. If ATCO Pipelines anticipates that well re-working will be required in the future, it is incumbent upon ATCO Pipelines to provide more detailed support for the expected costs of doing so.

481. The Commission directs ATCO Pipelines to continue with its current net salvage of -20.0 per cent at this time for Account 453.00.

8.3.3 Account 454.00 – underground storage – well equipment

482. ATCO Pipelines recommended a net salvage of -25.0 per cent for Account 454.00 over the test period. This proposal reflects an increase of -5.0 per cent to the currently-approved net salvage of -20.0 per cent and was recommended based on the use of a traditional net salvage study.

483. There was limited historical net salvage information available that would allow for an informed annual or three-year moving analysis, however, over the period 1991 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year indicated an overall -20.0 per cent.

484. Mr. Robinson did not provide industry statistics for this account.

485. Mr. Robinson indicated that he had based his proposed -25.0 per cent on the historical net salvage data and increasing age of the well equipment.

Commission findings

486. The Commission finds that the net salvage study does not support the recommendations of ATCO Pipelines, that a departure from the currently-approved percentage net salvage was not adequately supported.

487. Therefore, the Commission directs ATCO Pipelines to maintain its currently approved net salvage of -20.0 per cent for Account 454.00.

8.3.4 Account 463.00 – transmission – measuring and regulating structures

488. ATCO Pipelines recommended a net salvage of -25.0 per cent for Account 463.00 over the test period. This proposal reflects an increase of -10.0 per cent to the currently-approved net salvage of -15.0 per cent and was recommended based on the use of a traditional net salvage study provided.

489. Over the period 1958 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged between 69.0 per cent to -1,398 per cent, with an overall net salvage of -17.0 per cent. Three-year moving averages range from 41.0 per cent to -766.0 per cent.

490. Industry statistics provided by Mr. Robinson indicate a range of 3.0 per cent to -50.0 per cent.

491. Mr. Robinson indicated that coincident with the recommended increase in life of 5.0 years for this accounts, net negative salvage also routinely increases.

Commission findings

492. The Commission finds that the net salvage study does not support the recommendations of ATCO Pipelines, nor has sufficient evidence been provided to support a departure from the currently approved percentage net salvage. The Commission does not consider that the proposed increase in average service life for this account is directly linked to an increase in cost of removal.

493. Further, while the date range over which ATCO Pipelines has maintained historical net salvage data is lengthy, over the 53 years in question, there has been less than $0.2 million in net salvage costs associated with less than $1.0 million in asset retirements.

494. Therefore, the Commission directs ATCO Pipelines to maintain its currently approved net salvage of -15.0 per cent for Account 463.00.

8.3.5 Account 464.00 – transmission – other structures and improvements

495. ATCO Pipelines recommended a net salvage of -25.0 per cent for Account 464.00 over the test period. This proposal reflects an increase of -5.0 per cent to the currently-approved net salvage of -20.0 per cent and was recommended based on the use of a traditional net salvage study provided at Section 9 of the depreciation study and consideration of experience from observations noted in Account 463.00.

496. There was limited historical net salvage information available that would have allowed for an informed annual or three-year moving analysis; however, over the period 1960 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year indicated an overall -20.0 per cent.

497. Industry statistics provided by Mr. Robinson indicate a range of 3.0 per cent to -50.0 per cent.

Commission findings

498. The Commission finds that the net salvage study does not support the recommendations of ATCO Pipelines and that a departure from the currently approved percentage net salvage was not adequately supported.

499. Further, while the range over which ATCO Pipelines has maintained historical net salvage data are numerous, (over 51 years) there has been less than $0.025 million in net salvage costs associated with less than $0.115 million in asset retirements.

500. Therefore, the Commission directs ATCO Pipelines to maintain its currently-approved net salvage of -20.0 per cent for Account 464.00.

8.3.6 Account 465.00 – transmission – mains

501. ATCO Pipelines recommended a net salvage of -50.0 per cent for Account 465.00 over the test period. This proposal reflects an increase of -20.0 per cent to the currently approved net

salvage of -30.0 per cent and was recommended based on the use of a traditional net salvage study.

502. Over the period 1958 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged between 287.6 per cent to -633.2 per cent, with an overall net salvage of -73.0 per cent. Three-year moving averages range from 55.1 per cent to -583.3 per cent.

503. Industry statistics provided by Mr. Robinson indicate a range of 0.0 per cent to -90.0 per cent.

504. Mr. Robinson indicated that the escalations of increased levels of negative net salvage that were indicated in the past depreciation study have continued to be observed in the updated depreciation study filed in this application. Mr. Robinson indicated that the increases are due in part to requirements for more monitoring of abandoned pipe.

Commission findings

505. The Commission finds that the net salvage study supports the recommendations of ATCO Pipelines, that the increase to -50.0 per cent net salvage is reasonable and approves the increase.

8.3.7 Account 466.00 – transmission – compressor equipment

506. ATCO Pipelines recommended a net salvage of -20.0 per cent for Account 466.00 over the test period. This proposal reflects an increase of -15.0 per cent to the currently approved net salvage of -5.0 per cent and was recommended based on the use of a traditional net salvage study.

507. Over the period 1958 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged between 97.0 per cent to -389.0 per cent, with an overall net salvage of -13.0 per cent. Three-year moving averages range from 95.0 per cent to -79.0 per cent.

508. Industry statistics provided by Mr. Robinson indicate a range of 20.0 per cent to -35.0 per cent.

509. Mr. Robinson indicated that coincident with the recommended increase in life of 8.0 years for this account, net negative salvage also routinely increases.

Commission findings

510. The Commission finds that the net salvage study does not support the recommendations of ATCO Pipelines, nor has sufficient evidence been provided to support a departure from the currently approved percentage net salvage to the degree suggested by ATCO Pipelines. The Commission does not consider that the proposed increase in average service life for this account is directly linked to an increase in cost of removal.

511. Therefore, the Commission directs ATCO Pipelines to maintain its currently approved net salvage of -5.0 per cent for Account 464.00.

8.3.8 Account 466.01 – transmission – compressor equipment electronic

512. ATCO Pipelines recommended a net salvage of -15.0 per cent for Account 466.01 over the test period. This proposal reflects an increase of -15.0 per cent to the currently approved net salvage of 0.0 per cent and was recommended based on the use of a traditional net salvage study.

513. Over the period 2006 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged between 0.0 per cent to -127.0 per cent, with an overall net salvage of -14.0 per cent. Three-year moving averages range from -10.0 per cent to -42.0 per cent.

514. Industry statistics provided by Mr. Robinson indicate a range of 20.0 per cent to -35.0 per cent.

Commission findings

515. The net salvage study supports the recommendations of ATCO Pipelines, but it is based only on the analysis of the past five years, despite other sections of the depreciation study indicating that data is available at least as far back as 1997.

516. The Commission is not satisfied that the evidence before it on this issue supports a change to percentage net salvage for Account 466-01 – transmission - compressor equipment electronic and directs ATCO to maintain its currently-approved percentage net salvage of 0.0 at this time.

517. Future recommendations for this account could benefit from a net salvage analysis that examines all available historical data and an explanation of the types of retirement costs that are associated with electronic compressor equipment.

8.3.9 Account 467.00 – transmission – measuring and regulating equipment

518. ATCO Pipelines recommended a net salvage of -25.0 per cent for Account 467.00 over the test period. This proposal reflects an increase of -5.0 per cent to the currently approved net salvage of -20.0 per cent and was recommended based on the use of a traditional net salvage study.

519. Over the period 1958 to 2011, net salvage as a percentage of the original cost of the assets retired in each year, has ranged between 64.0 per cent to -720.0 per cent, with an overall net salvage of -24.0 per cent. Three-year moving averages range from 44.0 per cent to -76.0 per cent.

520. Industry statistics provided by Mr. Robinson indicate a range of 0.0 per cent to -30.0 per cent.

521. Mr. Robinson indicated that ATCO Pipelines has continued to experience higher levels of negative net salvage than incorporated in past depreciation rates.

Commission findings

522. The Commission finds that the net salvage study supports the recommendations of ATCO Pipelines. The increase to -25.0 per cent net salvage is reasonable, and is therefore approved.

8.3.10 Account 467.01 – transmission – measuring and regulating electronic

523. ATCO Pipelines recommended a net salvage of -20.0 per cent for Account 467.01 over the test period. This proposal reflects an increase of -20.0 per cent to the currently approved net salvage of 0.0 per cent and was recommended based on the use of a traditional net salvage study.

524. Over the period 1995 to 2011, net salvage, as a percentage of the original cost of the assets retired in each year, has ranged between 1,262.0 per cent to -87.0 per cent, with an overall net salvage of -30.0 per cent. Three-year moving averages range from 1,262.0 per cent to -87.0 per cent.

525. Mr. Robinson did not provide industry statistics for this account.

Commission findings

526. The Commission finds that the net salvage study supports the recommendations of ATCO Pipelines, that the increase to -20.0 per cent net salvage is reasonable, and consequently approves it.

8.3.11 Remaining depreciation study accounts

527. ATCO Pipelines proposed changes to the previously approved net salvage per cents for the following accounts:[287]

a. Account 452.00 – underground storage – structures and improvements (previously approved -10.0 per cent, proposed -5.0 per cent)

b. Account 456.00 – underground storage – compressor equipment (previously approved -5.0 per cent, proposed 0.0 per cent)

c. Account 484.03 – general plant – transportation equipment (ancillary) (previously approved 0.0 per cent and proposed 5.0 per cent)

d. Account 488.00 – general plant – communication equipment (previously approved -5.0 per cent and proposed 0.0 per cent)

528. ATCO Pipelines did not propose changes to the previously approved net salvage per cents for the following accounts:[288]

a. Account 451.00 – underground storage – land rights (previously approved and proposed 0.0 per cent)

b. Account 455.00 – underground storage – filed lines (previously approved and proposed -5.0 per cent)

c. Account 457.00 – underground storage – measuring and regulating equipment (previously approved and proposed -10.0 per cent)

[287] "Previously approved" refers to those life-curve parameters approved in Decision 2010-228; "proposed" refers to those life-curve parameters recommended in this proceeding by ATCO.

[288] "Previously approved" refers to those life-curve parameters approved in Decision 2010-228; "proposed" refers to those life-curve parameters recommended in this proceeding by ATCO.

d. Account 457.01 – underground storage – measuring and regulating equipment (previously approved and proposed 0.0 per cent)

e. Account 459.00 – underground storage – other underground storage equipment (previously approved and proposed 0.0 per cent)

f. Account 461.00 – transmission – land rights (previously approved and proposed -20.0 per cent)

g. Account 462.00 – transmission – compressor structures and improvements (previously approved and proposed -5.0 per cent)

h. Account 467.02 – transmission – measuring computer equipment (previously approved and proposed 0.0 per cent)

i. Account 468.00 – transmission – communications structures and equipment (previously approved and proposed 0.0 per cent)

j. Account 469.00 – transmission – other transmission equipment (previously approved and proposed -10.0 per cent)

k. Account 482.00 – general plant – structures (previously approved and proposed -5.0 per cent)

l. Account 484.00 – general plant – transportation equipment (previously approved and proposed 15.0 per cent)

m. Account 484.01 – general plant – transportation equipment (NGV) (previously approved and proposed 0.0 per cent)

n. Account 484.02 – general plant – transportation equipment (trailers) (previously approved and proposed 0.0 per cent)

o. Account 485.00 – general plant – heavy work equipment (previously approved and proposed 15.0 per cent)

529. ATCO Pipelines proposed a net salvage of 0.0 per cent for the following new accounts:

a. Account 465.01 – transmission – in line inspection

b. Account 466.03 – transmission – compressor overhaul

c. Account 466.04 – transmission – compressor overhaul turbo

d. Account 467.03 – transmission – meters

e. Account 496.05 – general plant – equipment SCADA (previously part of Account 499)

Commission findings

530. The Commission has examined the evidence in the depreciation testimony[289] and study[290] with respect to the net salvage analysis methodology used and summarized in the depreciation study results. The Commission has also considered the responses to information requests provided by ATCO Pipelines.

531. The Commission finds that the information in ATCO Pipelines' depreciation study supports the recommendations made by ATCO Pipelines and therefore approves the net salvage parameters for these accounts as proposed.

8.3.12 Remaining non depreciation study accounts – life-curve and net salvage parameters

532. ATCO Pipelines did not recommend changes to the life-curve or net salvage parameters for the four amortized general plant asset accounts which are identified as follows:

a. Account 483.00 – general plant – office furniture and equipment (previously approved and proposed 20-SQ life-curve, 10.0 per cent net salvage)

b. Account 486.00 – general plant – tools and work equipment (previously approved and proposed 25-SQ life-curve, 10 per cent net salvage)

c. Account 489.00 – general plant– stores, shop and garage equipment (previously approved and proposed 30-SQ life-curve, 10 per cent net salvage)

d. Account 491.00 – general plant – laboratory equipment (previously approved and proposed 25-SQ life-curve, 10 per cent net salvage)

533. Mr. Majoros indicated that because Mr. Robinson had not provided any study or empirical analysis supporting the continuation of the previously approved depreciation parameters for the four accounts identified above, he had no basis to confirm or challenge the parameters proposals.

Commission findings

534. ATCO Pipelines has not provided adequate support for its proposal to continue with the previously approved depreciation parameters for four of its general plant accounts as identified above.

535. Although Mr. Robinson made no recommendation to change the depreciation parameters for these accounts, in future depreciations studies ATCO Pipelines should provide support for its recommendations for all asset accounts, whether or not those recommendations include a proposed change or are a component of its depreciation study assets. ATCO Pipelines is directed to continue with the currently approved depreciation parameters for these accounts at this time.

289 Exhibit 34.02, ATCO's refiled GRA, Section 4.4.1, prepared testimony on depreciation.
290 Exhibit 4, ATCO's Section 4.4.1, depreciation study as of December 31, 2011.

8.4 Grouping procedure used in the depreciation study which underlies the proposed depreciation rate and the determination of the amortization of the reserve difference

536. Based on the evidence submitted by ATCO Pipelines, there was uncertainty with respect to the specific depreciation system (comprised of a method, a grouping procedure and an application technique) used by ATCO Pipelines in its depreciations study. Specifically, parties sought clarification on whether the grouping procedure applied for in this application was consistent with the grouping procedure approved in Decision 2003-100, as asserted by ATCO Pipelines.

537. In response to an IR seeking confirmation whether ATCO Pipelines' depreciation study used an application technique based on a whole life or remaining life technique, ATCO Pipelines confirmed its depreciation rates were based on "the Whole Life Technique calculated via the Broad Group Procedure."[291] In the same IR response, ATCO Pipelines also asserted, with respect to the amortization of reserve differences determination, that "the variance is amortized over a period developed using the Broad Group Procedure and Average Remaining Life Technique. There is no departure from the depreciation approach approved in Decision 2001-100."[292]

538. The reference to a broad group procedure used in conjunction with the whole life technique led to a subsequent IR[293] seeking clarification, among other things, of whether ATCO Pipelines' depreciation study in relation to depreciation rates and the amortization of reserve differences calculation, used a grouping procedure based on an equal life group or broad group procedure. ATCO Pipelines' response to this IR is reproduced in the following table.

[291] Exhibit 61.01, AUC-AP-47.
[292] Ibid.
[293] Exhibit 107.01, AUC-AP-109(b).

Table 16. Summary of proposed and approved depreciation methods, grouping procedures and application techniques

Decision or application/exhibit	For the purposes of depreciation rates or amortizing the reserve difference	Method	Grouping procedure	Application technique
Approved in Decision 2003-100[294]	Depreciation rates	Straight-line	ELG	Whole life
Approved in Decision 2003-100[295]	Amortization of the reserve difference	Straight-line	Broad group (negotiated settlement)	Average remaining life
Proposed in ID 13 by ATCO Pipelines[296]	Depreciation rates	Straight-line	ELG	Whole life
Proposed in ID 13 by ATCO Pipelines[297]	Amortization of the reserve difference	Straight-line	ELG	Average remaining life
Approved in ID 13 in Decision 2009-033[298]	Depreciation rates	Straight-line	ELG	Whole life
Approved in ID 13 in Decision 2009-033[299]	Amortization of the reserve difference	Straight-line	Broad group (negotiated settlement)	Average remaining life
Proposed in ID 2322 by ATCO Pipelines[300]	Depreciation rates	Straight-line	ELG	Whole life
Proposed in ID 2322 by ATCO Pipelines[301]	Amortization of the reserve difference	Straight-line	ELG	Average remaining life

539. ATCO Pipelines responded that with respect to both its depreciation rates and amortization of reserve differences, in this application, an equal life grouping procedure was incorporated.

Commission findings

540. The Commission is satisfied that ATCO Pipelines has calculated its depreciation rates based on the methodology approved in Decision 2003-100, which used a straight-line method in conjunction with the equal life group procedure and whole life application technique.

541. However, it appears that in making its determination of average remaining life for the purposes of the amortization of reserve differences calculation, ATCO Pipelines has not been consistent with the methodology approved in Decision 2003-100. As indicated in the above table, for the purposes of the amortization of reserve differences calculation, ATCO Pipelines has used a straight-line method in conjunction with the equal life group procedure and average remaining life application technique whereas Decision 2003-100 approved the use of a broad group procedure and average remaining life application technique.

294 Decision 2003-100: ATCO Pipelines 2003/2004 General Rate Application Phase I, Application No. 1292783, December 2, 2003.
295 Ibid.
296 Proceeding ID No. 13, Exhibit 14, ATCO Pipelines Depreciation study, as of December 31, 2005.
297 Ibid.
298 Decision 2009-033: ATCO Pipelines 2008-2009 General Rate Application Phase I – Settlement Agreement, Application No. 1527976, Proceeding ID No. 13, March 18, 2009.
299 Ibid.
300 Proceeding ID No. 2322, Exhibit 4, Section 4.4.1, ATCO Pipelines 2003-2014 General Rate Application, Depreciation study, as of December 31, 2011.
301 Ibid.

542. The Commission directs ATCO Pipelines to incorporate the use of the broad group procedure for the purposes of its amortization of reserve differences calculation in its compliance filing.

8.5 Detailed depreciation calculations

543. In response to an information request,[302] ATCO Pipelines provided its detailed depreciation expense calculations in documents using both approved depreciation parameters and proposed depreciation parameters. These documents were prepared on an account by account basis.

544. In examining the details respecting the combined equal life depreciation expense calculation using proposed depreciation parameters,[303] the Commission observed that for accounts 467.02 – transmission - measuring computer equipment, 488.00 – general plant - communication equipment and 489.11 – general plant - field laptops, the balances shown for accumulated depreciation exceed the original cost of the assets. Further, it appears that despite the original cost of the asset being fully recovered, the worksheets continued to calculate depreciation expense for the 2013 and 2014 test years.

545. The Commission has summarized the pertinent information from the information response in the table below.

Table 17. Comparison of combined North-South plant balances and accumulated depreciation for select accounts ($ thousand)[304]

	Annual				Monthly			TOTAL			TOTAL		TOTAL
	North		South		Amortization	2013	2013	2013	2013	2013	2013	2013	2013
	Deprn	NS	Deprn	NS	of Reserve	Close	Open	Depr	Close	Open	NS	Close	Depr + NS
Prime	Rate	Rate	Rate	Rate	Difference	FA Bal	Accum Depr	Exp	Accum Depr	Accum NS	Exp	Accum NS	Exp
467.02	1.86%	0.00%	1.86%	0.00%	13	2,141	(2,980)	117	(2,863)	(28)	-	(28)	117
488.00	10.06%	0.00%	10.06%	0.00%	(24)	491	1,174	338	863	229	-	229	(338)
489.11	25.00%	0.00%	25.00%	0.00%	-	217	(222)	(54)	(276)	-	-	-	(54)
	Annual				Monthly			TOTAL			TOTAL		TOTAL
	North		South		Amortization	2014	2014	2014	2014	2014	2014	2014	2014
	Deprn	NS	Deprn	NS	of Reserve	Close	Open	Depr	Close	Open	NS	Close	Depr + NS
Prime	Rate	Rate	Rate	Rate	Difference	FA Bal	Accum Depr	Exp	Accum Depr	Accum NS	Exp	Accum NS	Exp
467.02	1.86%	0.00%	1.86%	0.00%	13	2,141	(2,863)	117	(2,746)	(28)	-	(28)	117
488.00	10.06%	0.00%	10.06%	0.00%	(24)	491	863	(338)	498	229	-	229	(338)
489.11	25.00%	0.00%	25.00%	0.00%	-	217	(276)	(54)	(331)	-	-	-	(54)

546. Referring to Table 17 above, in the case of Account 467.02 – transmission – measuring computer equipment, using December 31, 2013 as an example, the accumulated depreciation amount of $2,980 exceeds the historical cost of $2,141 of the associated assets. There is an amount reflecting accumulated net salvage despite the fact that ATCO Pipelines does not recover net salvage for its measuring computer equipment through its depreciation rates. Further, depreciation expense continues to be calculated, albeit in a credit amount, for this account over the test period.

547. In the case of Account 488.00 – general plant – communication equipment, using December 31, 2013 as an example, in addition to accumulated depreciation being reflected in a debit position of $1,174, there is an amount reflecting accumulated net salvage despite the fact

302 Exhibit 61.05, AUC-AP-41attachments (a-d).
303 Exhibit 61.05, AUC-AP-41(b) attachment.
304 Exhibit 61.05, AUC-AP-41(b) attachment.

that ATCO Pipelines does not recover net salvage for its communication equipment through its depreciation rates. Further, depreciation expense continues to be calculated for this account, albeit in a credit amount, over the test period.

548. In the case of Account 489.11 – general plant – field laptops, using December 31, 2013 as an example, the accumulated depreciation amount of $222 exceeds the historical cost of $217 of the associated assets. Depreciation expense continues to be calculated for this account over the test period.

549. The detailed calculations also identified depreciation rates for assets amortized by way of a fixed rate depreciation. When comparing the proposed amortization period with the depreciation rates implicit in the straight line fixed rate method as proposed by ATCO Pipelines,[305] the resultant rates do not correspond for Account 489.00 – general plant – stores and shop equipment, Account 491.00 – general plant – laboratory equipment, and Account 498.01 – intangible assets - mapping data base.

550. The Commission has summarized the pertinent information from the information response in the table below.

Table 18. Selected straight line amortization rates[306]

	Annual as proposed by ATCO				Life and corresponding rates calculated by Commission	
	North		South			
Prime	Deprn rate	NS rate	Deprn rate	NS rate	Exhibit 34.03 Section 4.4 page 2 of 5	Calculated depreciation rate 1 / years
Tab: 2013 and 2014 fixed rate - depreciation combined						
489.00	4.00%	-0.40%	0.00%	-0.33%	30 years	3.33%
491.00	5.00%	0.00%	5.00%	0.00%	25 years	4.00%
498.01	5.00%	0.00%	5.00%	0.00%	10 years	10.00%
Tab: 2013 and 2014 equal Life - depreciation combined						
489.11	25.00%	0.00%	25.00%	0.00%	4 years	25.00%

551. Referring to Table 18 above, in the case of Account 489.00 general plant – stores, shop and garage equipment, the amortization rate implicit with a 30-year life and amortization period is approximately 3.33 per cent and not 4.00 per cent as determined by ATCO Pipelines.

552. In the cast of Account 489.11 general plant – field laptops, given that this account appears to not be a study asset, the derivation of the amortization rate of 25.00 per cent is unclear. However, Account 489.11 is being amortized on a basis similar to other computer related assets such as Account 499.00 intangible assets – software.

553. In the case of Account 491.00 general plant – laboratory equipment and Account 498.01 intangibles – data base mapping, the proposed amortization rates of 5.00 per cent for each account do not reflect the correct amortization rates implicit with a 25- and 10-year life and

305 Exhibit 34.03, ATCO's refiled application, Section 4.4, page 2 of 5 (PDF page 116 of 273).
306 Exhibit 61.05, AUC-AP-41(b) attachment.

amortization period respectively. Therefore, the amortization rate for Account 491.00 should be 4.00 per cent, and the amortization rate for account 498.01 should be 10.00 per cent.

Commission findings

554. Based on the observations noted above, certain depreciation expense calculations for accounts 467.02, 488.00 and 489.11 are not adequately supported by the evidence in this proceeding.

555. Further, the Commission finds that the depreciation parameters approved previously for accounts 489.00, 491.00 and 498.01 do not appear to have been adequately addressed in ATCO Pipelines' detailed depreciation calculations. In the case of Account 489.11, the Commission directs ATCO Pipelines to provide, in its compliance filing, a reference to the decision where the service life of 25 years was approved.

556. The Commission directs ATCO Pipelines, in its compliance filing to this decision, to incorporate any necessary corrections to its depreciation calculations or explain why no adjustments are required.

557. Further, the Commission directs ATCO Pipelines, in its compliance filing, to prepare revised detailed depreciation calculations supporting its updated (approved and proposed) depreciation expense, similar to the format provided in response to AUC-AP-41.

8.6 Implications of fully amortized assets

558. In response to an earlier information request from the Commission, ATCO Pipelines clarified that for accounts whose depreciation reserve ratio is 1.00 for a given vintage of asset (excluding net salvage) as indicated in Section 8 of Mr. Robinson's depreciation study, it would "mean that the depreciation reserve for that vintage would be fully accrued."[307]

559. In essence, under the circumstance described, the operational life of a certain vintage of asset would have sufficiently exceeded the average service life associated with the chosen life-curve parameters, such that the vintage of asset no longer attracts depreciation expense while it continues to remain a used and required to be used utility asset.

560. Mr. Robinson indicated that it is not uncommon for a limited quantity of asset investment to exceed maximum age under the estimated service life dispersion and that while these are perceived to be outliers, or somewhat abnormal events, they do not impact the life estimate for the property group.

Commission findings

561. Of the seven accounts that were in question in the information request AUC-AP-59,[308] three of the accounts each had at least 13 vintages of assets whose life had exceeded the average service life for the account.

562. The Commission views this as an early indicator that the average service life for the account may be too short. Further, for these older vintages of assets, for the accounts in question,

[307] Exhibit 107.01, information response AUC-AP-112.
[308] Exhibit 61.01, information response AUC-AP-59, referencing accounts 457.01, 464.00, 466.03, 467.02, 469.00, 484.02 and 496.05.

some of which date back as far as the 1920s and 1930s, it raises the question of whether the assets physically remain in service. In response to the question asking what processes ATCO Pipelines has in place to ensure all retirements of utility assets are recorded promptly and accurately so that field and accounting records might be reconciled, Mr. Robinson provided little support for his statement that “periodically, assets are reviewed to determine if they continue to be required for utility service.”[309]

563. The Commission finds that this issue has not been adequately addressed in this proceeding and directs ATCO Pipelines in its next depreciation study to provide assurance to the Commission that its accounting records (including the database relied upon for its depreciation study) relating to its property, plant and equipment, accurately represent what is in service for the purpose of providing utility service.

9 Placeholders and deferral accounts

564. There are several proceedings currently before the Commission that may impact the costs forecast by ATCO Pipelines in this application. These proceedings are as follows:

- 2012 Final Revenue Requirement Application (Application No. 1608689)
- ATCO Utilities 2010 Evergreen Application (Evergreen II – Application No. 1605338)
- ATCO Utilities Corporate Costs (Application No. 1608510)
- The Utility Asset Disposition Proceeding (Application No. 156673)[310]
- The 2013 Generic Cost of Capital Proceeding (Application No. 1608918)
- Urban Pipeline Initiative – Application Scope, Requirements and Process (Application No. 1608617) [The Urban Pipeline Initiative has been renamed the Urban Pipeline Replacement project][311]

565. ATCO Pipelines requests that the costs forecast in this application related to the issues addressed in any of the above proceedings through a decision by the Commission be deemed placeholders. With respect to the urban pipeline replacement (UPR) proceeding, ATCO Pipelines has included forecasts in 2013 and 2014 for the continuation of the UPR program and has reflected the recovery of all UPR project costs incurred in 2012.[312]

566. The Commission directs ATCO Pipelines in its compliance filing to revise its revenue requirement to reflect the Commission findings with respect to:

- ATCO Pipelines 2012 final revenue requirement and related compliance filing, Decision 2013-064 and Decision 2013-326 respectively

- the ATCO Utilities, corporate costs and related compliance filing, Decision 2013-111 and 2013-293

[309] Exhibit 61.01, information response AUC-AP-55(a).
[310] Decision 2013-417: Utility Asset Disposition, Application No. 1566373 Proceeding ID No. 20, November 26, 2013
[311] Exhibit 34.03, PDF page 7.
[312] Exhibit 34.03, PDF page 7.

9.1 Settlement of deferral account balances

567. In this Application ATCO Pipelines is requesting Commission approval to settle deferral account balances totaling $3,740,000.

Table 19. Summary of 2012 deferral accounts over/(under) recovered balances

	Balance to settle in this application	Remaining balance
	($000)	
Salt Cavern working gas	-1180	
Deferred pension funding	-551	
Property taxes	2371	
Hearing costs	842	
Major overhaul depreciation compressors	-1380	
Deferred pipeline inspection costs	-186	
Reserve for injuries and damages	-281	
Deferred pension funding (capitalized pension)	5453[313]	
NGTL integration	-1347	-228[314]
Total over/(under) recovered DA balance	**3740**	**-228**

*minor differences due to rounding

568. Included in the deferral account balances that are forecast to be settled in this application are:

> **The Salt Cavern Working Gas deferral** account which collects the difference between the average cost of the Salt Cavern Working Gas Inventory and the market price received when gas is sold for withdrawal purposes plus any related transaction costs. The Salt Cavern Working Gas Deferral Account is forecast to reach an under recovered balance of $1,180,000.[315]
>
> **The Deferred Pension Funding account** collects the difference between actual/forecast pension payments made for the defined benefit ("DB") and defined contribution ("DC") plans including special payments, and the pension funding amounts included in AP's 2010-2012 Negotiated Settlement. As noted at the beginning of this section, forecast deferral account balances will be trued-up to reflect actual balances. In the case of the pension funding under recovery in 2012, the forecast deferred balance of $551,000 will be adjusted to show actual adjustments for the cost of living allowance ("COLA") adjustment per Decision 2011-391 and Decision 2012-331, and to incorporate the 2010, 2011 and 2012 depreciation adjustments as per Decision 2012-331.[316]
>
> Forecast December 31, 2012 balances for **Property Tax deferral accounts** and related riders include 2012 amounts, as well as 2011 amounts filed as part of AP's 2012 Final Revenue Requirement Application currently before the Commission pending a final decision. Consistent with Section 6(b) of the Settlement, AP's property taxes will be treated as a "flow-through" item. AP's Property Tax deferral account will

313 Net refund of capital portion of pension cost per AUC Decision 2012-331, 2011 Pension Common Matters Second Compliance Filing, proceeding ID 2078.

314 Represents amounts to be settled related to processes completed to implement Integration with NGTL and includes the placeholder net book value of STAR as at December 31, 2012, pending a final decision on AP's 2012 Final Revenue Requirement Application, ID 2041, which remains before the Commission.

315 Exhibit 34.03, PDF page 140.

316 Exhibit 34.03, PDF pages 141-142.

refund/(recover) the difference between the forecast and actual amounts. The amounts to be settled in this Application relate to 2012 consisting of forecast property taxes of $13,599,000 and estimated actual costs of $10,993,000. The forecast amount to be refunded of $2,371,000 includes the under recovery of Rider B related to property tax applicable to customers residing in municipalities that receive property tax under the Municipal Government Act.[317]

AP forecasts a hearing cost deferral balance credit of $842,000.[318]

The Major Overhaul Depreciation deferral account reflects the difference between the depreciation expense using the currently approved depreciation rate of the fixed asset account these costs were previously capitalized to and the depreciation expense using the rate acceptable under IFRS. IFRS allows costs to be depreciated over the life of the overhaul, i.e. until the next overhaul. Major Overhaul Depreciation deferral account has an under recovered balance $1,380,000.[319]

The Deferred Pipeline Inspection Costs deferral account reflects the difference between the depreciation expense using the currently approved depreciation rate of the fixed asset account these costs were previously capitalized to and the depreciation expense using the rate acceptable under IFRS. IFRS allows costs to be depreciated over the life of the inspection, i.e. until the next inspection. The Deferred Pipeline Inspection Costs deferral account has an under recovered balance of $186,000.

Estimated under recovered **2012 Reserve for Injuries & Damages deferral account** balance as at December 31, 2012 is $281,000[320]

Deferred Pension Funding (i.e. Capitalized Pension)
AP forecast a settlement balance of $5.453million to be refunded for the capital portion of pension cost per AUC Decision 2012-331, issued December 7, 2012.[321]

NGTL Integration Deferral Account was established to account for the difference between costs and savings that were forecast by AP and included in the 2010-2012 Negotiated Settlement revenue requirements and actual/forecast costs and savings related to integration with NGTL. The Settlement amounts and the actual/forecast costs and savings that occurred were determined based on the principle that the costs and savings were directly attributable to Integration and would not have occurred had Integration not taken place. Actual/forecast costs and savings include amounts related to STAR that are subject to the 2012 Final Revenue Requirement proceeding and have been treated as a placeholder in this Application. Table 5.1-11. AP seeks Commission approval for continued deferral account treatment of the costs and savings resulting from Integration until Integration has been fully completed. For the purposes of this Application, AP is seeking Commission approval to settle deferral account amounts related to processes AP has completed to date. These include the 2010-2012 Revenue Requirement Settlement and Alberta System Integration (Application 1605226), Contract Transition (Application No. 1606374), and the Asset Swap Application (Application No. 1608166), table 5.1-11 pdf page148. AP will continue to accumulate Integration costs and/or savings within this account until integration with NGTL is fully complete. The remaining balance of

317 Exhibit 34.03, PDF pages 142-143.
318 Exhibit 34.03, PDF pages 143-144.
319 Exhibit 34.03, PDF pages 144-145.
320 Exhibit 34.03, PDF page 146.
321 Exhibit 34.03, PDF page 146.

$228,000 in Table 5.1-11 reflects costs related to the physical asset swap portion of the Integration process which has not yet been completed.[322]

569. The Commission has reviewed the inputs and calculations of the above deferral account balances and approves the settlement/refund for each of these deferral accounts as filed.

9.2 Asset swap placeholders

570. The following is a list of GRA placeholders accounting for forecast costs related to the asset swap:

- plant in service
- capital improvements
- O&M
- depreciation and
- income tax

571. Asset swap placeholders and adjustments will be settled through the NGTL Integration deferral account.[323]

572. While the transfer of assets has no direct effect on rate base in this GRA, O&M, depreciation, and income tax are all impacted by the asset swap.

573. ATCO Pipelines forecast the physical asset swap with NGTL to commence in 2014 and extend beyond the test years. In this application, as a result of the forecast exchange of assets, income tax is lower by $91,000 in 2014 and net depreciation is lower by $79,000 in 2014.[324] The impact of these expenses are placeholders, with the difference between actual and forecast asset swap related expenses addressed through the NGTL integration deferral account.[325] ATCO Pipelines has also forecast $2,095,000 in capital improvements in 2014 for the asset swap, which was addressed in Section 9.2 of this decision. These capital expenditures are also a placeholder in this application.[326]

574. Under ATCO Pipelines' transmission supplies expenses, ATCO Pipelines has also forecast annual land rights payments of $1,600,000 starting in 2014 that relate to assets being transferred to ATCO Pipelines from NGTL under the asset swap component of integration. None of the pipeline right-of-ways being transferred from ATCO Pipelines to NGTL have annual land rights payments. Some of the pipeline right-of-ways being acquired by ATCO Pipelines from NGTL have annual land rights payments. Upon the transfer of these pipelines to ATCO Pipelines, ATCO Pipelines will be responsible for these annual payments. The annual forecast for land rights payments is $1,600,000 starting in 2014.The forecast cost related to the field operations and maintenance of incremental assets obtained from NGTL is $300,000 in 2014.[327]

[322] Exhibit 34.03, PDF page 146-148.
[323] Exhibit 34.03, PDF page 8.
[324] Exhibit 34.03, page 120.
[325] Exhibit 34.03, page 129.
[326] Exhibit 34.03, PDF page 19.
[327] Exhibit 61.01, AUC-AP-27(a).

575. CAPP questioned the validity of ATCO Pipelines' inclusion of $2,095,000 in capital improvements in 2014 for the asset swap, as a placeholder in this GRA. In CAPP-AP-56(a-c),[328] ATCO Pipelines confirmed the timing of the events prior to any asset swap with NGTL, which include the filing and approval (estimated at 12 months) of NGTL's asset swap application and the required front end engineering (estimated at six months following NEB approval). As NGTL has yet to file its application, CAPP submitted that the $2,095,000 placeholder should not be approved, because commencement of the asset swap cannot reasonably occur within the 18-month time frame prior to the end of 2014.[329]

576. The CCA also expressed concerns with two interrelated aspects of the application related to the NGTL asset swap. The first is the integrity of the schedule and associated placeholder costs in forecasting completion of the transfer of the first tranche of assets at the end of the third quarter of 2014 and the transfer of the second tranche of assets at the end of 2014 – when NGTL has yet to submit its application to the NEB. The CCA considers it inappropriate to predict when regulatory approvals will be received and those costs approved, especially when the party seeking such approval has yet to file its application.[330] The CCA considers that both the tranche schedule and costs associated with the asset swap will likely require adjustment pending NEB approval.

577. The second item is the reliability of forecasting costs relative to O&M, depreciation, and income tax absent any insight into the content of NGTL's application to the NEB. The CCA submitted that in order to fully evaluate the impact of the asset swap, the details of the NGTL application need to be viewed in conjunction with the ATCO Pipelines application. For example, in response to AUC-AP-9,[331] ATCO Pipelines stated, "[w]ith respect to the $1,900,000 higher O&M costs, $1,600,000 relates to annual land rights payments, based on historical costs provided by NGTL and the $300,000 relates to field operations and maintenance of facilities, based on historical cost." The CCA argued that because ATCO Pipelines is assuming the $1,600,000 in annual land rights payments from NGTL as part of the asset swap, it is assumed that NGTL's O&M costs in its application should show a reduction of at least $1,600,000 because it no longer retains the annual land rights payments obligation. The same should hold true for the field operations and maintenance of facilities costs of $300,000. If the assets that ATCO Pipelines is transferring to NGTL are less costly to operate and maintain, a corresponding reduction in NGTL's O&M cost should appear in the NGTL application.[332]

578. Similarly, in its application ATCO Pipelines has forecast $2,095,000 in capital improvements in 2014 for the asset swap. In response to CAPP-AP-7,[333] ATCO Pipelines stated that "[t]he capital work will be focused on the modifications required at field sites to allow communications to each company's respective control centers." It is unclear from the application exactly how the capital improvement costs were derived and whether AP is absorbing the entire cost of the capital improvements to allow communications to each company's respective control centers or if NGTL will have a similar capital improvement cost in its application. The CCA submitted that without the benefit of the contents of the NGTL application, it is not possible to fully assess the impact of the asset swap in the ATCO Pipelines application.

[328] Exhibit 109.01.
[329] Exhibit 111.01, CAPP argument, page 13.
[330] Exhibit 113.01, CCA argument, page 9.
[331] Exhibit 61.01.
[332] Exhibit 113.01, CCA argument, page 10.
[333] Exhibit 63.01.

579. Similar to the CCA's and CAPP's concerns, the UCA argued that ATCO Pipelines should not collect funds through these placeholders because the forecast asset swap costs appear more likely to be incurred in 2015 than in 2014. The UCA recommended that the placeholder amounts should be set to $0.0. As the placeholders would remain in place into 2015, ATCO Pipelines would still have an opportunity to recover any prudent costs actually incurred in 2014 following approval of the NGTL asset swap application.[334]

580. The CCA recommended, and the UCA supported, that ATCO Pipelines be directed to file an application with any required changes to ATCO Pipelines' revenue requirement for the test years when the NEB rules on the NGTL asset swap application (or if part of another application, upon the disposition of that application).[335]

581. In ATCO Pipelines' reply argument, ATCO Pipelines noted its response to CAPP-AP-56(d),[336] where it submitted that the placeholder treatment for costs related to the asset swap is appropriate as the uncertainty still exists as to when NGTL's asset swap application will be filed and approved by the NEB and ATCO Pipelines has no control over the process. ATCO Pipelines also argued that while CAPP has assumed, without evidence, that the likely timing of the transfer of assets is 2015, ATCO Pipelines' application forecasts the first two tranches of the asset swap to occur in 2014.[337] In conclusion, ATCO Pipelines submitted that the timing proposed for the transfer of the assets under the asset swap is reasonable, and that there is no evidence to suggest otherwise.[338]

582. In ATCO Pipelines' view, there is no basis to suggest that the placeholder should not be approved (as suggested by CAPP), or that the amount of $2,095,000 requested for placeholder treatment is not reasonable (as suggested by UCA). Further, the CCA's suggestion that there is some issue about the reliability of the costs forecast absent review of the NGTL application is without basis, and absent some evidence to the contrary, the suggestions by the CCA do not demonstrate that any of the forecast costs related to the asset swap are unreasonable.[339]

Commission findings

583. On November 22, 2012, the Commission released Decision 2012-310, which approved ATCO Pipelines' asset transfer (asset swap) to NGTL and related dispositions pursuant to Section 26(2)(d) of the *Gas Utilities Act*. NGTL has yet to file its application with the NEB. Because the asset swap cannot occur prior to NGTL receiving NEB approval, rate base will not be affected by the asset swap until the closing of the final tranche of the four tranche asset transfer.

584. ATCO Pipelines confirmed the timing of the events prior to any asset swap with NGTL, which includes the filing and approval (estimated at 12 months) of NGTL's asset swap application and the required front end engineering (estimated at six months following NEB approval). Because NGTL has yet to file its application, the Commission concludes that the $2,095,000 placeholder should not be approved, as commencement of the asset swap cannot reasonably occur prior to the end of 2014. As the exact date of NGTL's asset swap filing with

[334] Exhibit 114.02, UCA argument, page 5.
[335] Exhibit 118.02, UCA reply argument, page 17.
[336] Exhibit 109.01.
[337] Exhibit 117.01, AP reply argument.
[338] Exhibit 117.01, AP reply argument, page 30.
[339] Exhibit 117.01, AP reply argument, page 30.

the NEB is unknown and any associated approval date of the asset swap application is also unknown, the Commission approves the use of a placeholder of $0.0 for all components of the asset swap included in ATCO Pipelines' 2013-2014 GRA. ATCO Pipelines is directed in its compliance filing to revise its placeholders for ATCO Pipelines' assets swap accordingly.

585. ATCO Pipelines is directed to file an application with any required changes to ATCO Pipelines' revenue requirement for the test years when the NEB rules on NGTL's asset swap application.

9.3 ATCO Pipelines 2013 and 2014 revenue requirement placeholders

586. In AUC-AP-99,[340] ATCO Pipelines provided a list of all costs that are included in ATCO Pipelines' revenue requirement application that are considered placeholders.

Table 20. ATCO Pipelines 2013-2014 revenue requirement placeholders

Placeholder	Cost ($000)	Year	Application reference
Asset swap capital improvements	$2,095	2014	Section 2.2.3 Page 2
Asset swap SCADA removals (application amendment)	$105	2014	Table 2.2-2 AUC-AP-55(g)
Asset swap O&M	$1,900	2014	Section 4.2.6 Page 1
Asset swap depreciation	$79	2014	Section 4.4.2 Page 1
Asset swap income tax	$91	2014	Section 4.5.2 Page 1
Asset swap PP &E - to NGTL	$(40,316)	2014	Table 2.2-3 Page 3
Asset swap PP &E - from NGTL	$109,381	2014	Table 2.2-3 Page 3
PP&E non-monetary adjustment	$(69,065)	2014	Table 2.2-3 Page 3
Asset swap Acc Depr - to NGTL	$20,662	2014	Table 2.2-3 Page 3
Asset swap Acc Depr - from NGTL	$(69,292)	2014	Table 2.2-3 Page 3
Acc depr non-monetary adjustment	$48,630	2014	Table 2.2-3 Page 3
Asset swap contrib - to NGTL	$2,487	2014	Table 2.2-3 Page 3
Asset swap contrib - from NGTL	$0	2014	Table 2.2-3 Page 3
Contrib non-monetary adjustment	$(2,487)	2014	Table 2.2-3 Page 3
Asset swap acc mmort - to NGTL	$(1,319)	2014	Table 2.2-3 Page 3
Asset swap acc amort - from NGTL	$0	2014	Table 2.2-3 Page 3

340 Exhibit 61.01.

Placeholder	Cost ($000)	Year	Application reference
Acc amort non-monetary adjustment	$1,319	2014	Table 2.2-3 Page 3
NGTL directed capital - Shepard (application amendment)	$13,025 $57,856	2013 2014	AUC-AP-16(d)
NGTL directed capital - gen. growth	$2,505 $3,105	2013 2014	Table 2.3-9 Section 2.3.2
Urban Pipeline Replacement Project	$600 $77,606	2013 2014	Table 2.3-7 Section 2.3.3
UPR asset transfer to AG (application amendment)	$3,000	2013	AUC-AP-4(b)
UPR accum. depr. transfer to AG (application amendment)	$600	2013	AUC-AP-4(b)
Depreciation expense - SLELG[341]	$40,795 $45,263	2013 2014	Table 4.4-1 Line 01
Amort of contributions - SLELG	$2,486 $2,526	2013 2014	Table 4.4-1 Line 06
Common equity and capital structure	$29,295 $33,877	2013 2014	Section 3.1 Page 2
Disallowed rent (application amendment)	$0 $0	2013 2014	AUC-AP-35(d)
Donations and sponsorships	$418 $450	2013 2014	Section 4.2.8 Page 1
ATCO Group costs - corp signature rights	$750 $750	2013 2014	Section 4.2.8 Section 4.2.2
ATCO Group costs - other	$4,813 $3,993	2013 2014	Section 4.2.2 Page 1
AUC operating costs	$2,500 $2,500	2013 2014	Section 4.2.7
Hearing costs	$1,150 $1,150	2013 2014	Section 4.2.9
ATCO I-Tek - O&M (ATCO I-Tek - capital placeholders cannot be specifically identified)	$3,838 $3,936	2013 2014	Section 4.2.2 Page 1
Defined benefit plan	$3,293 $3,293	2013 2014	Section 4.2.12 Page 1
Special payment - pension	$2,621 $2,621	2013 2014	Section 4.2.12 Page 1
50% COLA reduction	($2,400) ($2,400)	2013 2014	Section 4.2.12 Page 1
Variable pay program	$1,765 - O&M $1,023 - Cap $1,857 - O&M $1,075 - Cap	2013 2013 2014 2014	Section 4.2.11
Injuries and damages	$200 $200	2013 2014	Section 4.2.10

587. ATCO Pipelines' requested placeholders for expenses related to donations, sponsorships and corporate signature rights were denied in Section 7.6 of this decision.

341 Straight line equal life group.

588. The Commission also denied the recovery of any cost of living expenses included in the revenue requirement above the approved 50 per cent COLA level approved in Decision 2011-391.

589. In Section 9.2 of this decision, the Commission approved a placeholder for all costs related to ATCO Pipelines' asset swap, with only a placeholder value $0.0 because the timing of NGTL's asset swap application to the National Energy Board is still uncertain and the completion of all stages of the asset swap is unlikely to occur during the test years.

590. The Commission also approved a deferral account for ATCO Pipelines' variable pay program, but only on an asymmetrical basis and subject to cost reductions in accordance with Section 7.7 of this decision.

591. The Commission has reviewed the remaining placeholders identified in the table above. It considers that the proposed placeholders are reasonable and approves them as filed.

10 Compliance with Commission directions

592. The Commission has reviewed ATCO Pipelines' attachment to Section 6.1.of the refiled application and UCA-AP-115(b)[342] and is satisfied with ATCO Pipelines' explanation of the status of compliance with previous directions of the Commission, the identification of any related proceeding wherein ATCO Pipelines complied with past directions, and its progress with complying with any ongoing directions.

[342] Exhibit 62.01.

11 Order

593. It is hereby ordered that:

(1) ATCO Pipelines is directed to file a compliance filing to this decision no later than January 22, 2014.

Dated on December 4, 2013.

The Alberta Utilities Commission

(original signed by)

Anne Michaud
Panel Chair

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

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Consumers' Coalition of Alberta (CCA) J. A. Wachowich J. A. Jodoin
ConocoPhillips Canada Limited J. Gilholme
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The Alberta Utilities Commission

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- A. Michaud, Panel Chair
- M. Kolesar, Vice-Chair
- N. Jamieson, Commission Member

Commission Staff
- J. Petch (Commission counsel)
- R. Finn (Commission counsel)
- M. McJannet
- D. Mitchell
- L. Mullen
- L. Ou

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 the AUC-AP-4(a) attachment, ATCO Pipelines provided financial schedules that compared its 2012 estimate to its 2012 actual results. The Commission is satisfied with ATCO Pipelines' explanation of the variance between its 2012 estimated and actual results for property, plant and equipment. As a result, ATCO Pipelines is directed to adjust its opening 2013 property, plant, and equipment balance to be consistent with its 2012 actual of $1,486,288,000. .... Paragraph 48

2. For the reasons outlined above, the request by ATCO Pipelines to recover $1.38 million for depreciation expense differences in 2011 and 2012 related to major overhauls is denied; and the request to recover $0.186 million for depreciation expense differences in 2011 and 2012 related to pipeline inspection costs is also denied. The Commission directs ATCO Pipelines, in its compliance filing, to update any revenue requirement items for 2013 and 2014 that are impacted by these denials, and to include detailed calculations that substantiate the claimed impacts and the updated revenue requirements. Paragraph 66

3. To enable the Commission and other interested parties to examine this issue on an adequately informed basis, the Commission directs ATCO Pipelines, in its compliance filing, to provide better details about the composition of the $0.9 million and $2.1 million forecast for 2013 and 2014, with respect to pipeline integrity inspections and other pipeline inspections. The details to be provided should include a separation of the forecast costs for each year between pipeline integrity inspections and other pipeline inspections, the purpose of both types of inspections, and a justification for why they fall under the major inspection requirement of IAS 16.14. .... Paragraph 82

4. Having declined CAPP's requested deferral account treatment for all capital expenditures and the additional process recommended by the UCA, the Commission must decide whether the proposed across-the-board reduction to improvements and replacements forecasts is warranted. In its evidence, the UCA submitted that ATCO Pipelines over-forecast replacements by 19.28 per cent, from 2010-2012, 26.4 per cent from 2009-2012 and 27.09 per cent from 2008-2012. Similarly, the UCA submitted that ATCO Pipelines over-forecast improvements by 14.9 per cent from 2010-2012, 23.47 per cent from 2009-2012 and 20.63 per cent from 2010-2012. Although ATCO Pipelines argued that it provided explanations of historical variances between forecast and actuals, the Commission finds that the evidence clearly shows a prolonged pattern of ATCO Pipelines over-forecasting replacement and improvement capital expenditures and concludes that a reduction to ATCO Pipelines' forecast is warranted. Based on the above, ATCO Pipelines is directed in its compliance filing to reduce its replacement and improvement capital expenditures by 19 per cent and 15 per cent respectively. .... Paragraph 101

5. Although the various disaggregated projects have similar descriptions, the Commission is satisfied with ATCO Pipelines' explanation that once each project is completed it will become used and required to be used. However, the Commission finds that it is not

sufficiently clear that these projects are not inter-related. As a result, ATCO Pipelines is directed at its next GRA to clearly confirm that each general project is an independent project and not small components of larger capital expenditures. Although this direction is specific to general capital expenditures, the direction is also applicable to projects above the Commission's business case threshold for ATCO Pipelines of $500,000. .... Paragraph 105

6. The Commission accepts ATCO Pipelines' proposed revision to its capital expenditures forecast and directs ATCO Pipelines to reflect the withdrawal of this capital project in its compliance filing. .... Paragraph 136

7. In Decision 2012-310, the Commission approved the ATCO Pipelines Asset Swap application. The Commission is satisfied that ATCO Pipelines has justified the underlying need for the asset swap capital expenditures, but concludes that there is significant uncertainty as to when NGTL will file its application with the NEB and that it is unlikely that a decision will be rendered by the NEB in 2014. As a result, the Commission approves a capital expenditures placeholder with respect to the asset swap, but assigns a placeholder value of $0. ATCO Pipelines is directed to revise its capital expenditures forecast in its compliance filing, accordingly. ATCO Pipelines' asset swap placeholders are also addressed in Section 9.2 of this decision. .... Paragraph 169

8. As a result, ATCO Pipelines is directed to include the following in its compliance filing:

    - an explanation of how the timing delays associated with the UPR proceeding led to a change in scope of the Shepard project and facilities required to serve SEC
    - an explanation of the cost difference between the time ATCO Pipelines filed its GRA application and the time ATCO Pipelines filed the business case with respect to specific components of the SEC:
        - the East Calgary B interconnect and Petrogas control facility upgrades now being included in the scope of SEC instead of the UPR Project as the UPR Project is delayed and the SEC project will occur first
        - 2.4 km of the 610 mm East Calgary B pipeline extension now being included in the scope of SEC instead of the UPR project as the UPR project is delayed and the SEC project will occur first
        - Chestermere Lake lateral control station now being included in the scope of SEC instead of the UPR project as the UPR project is delayed and the SEC project will occur first
        - finalized routing of the 508 mm SEC delivery lateral resulted in additional directional drilling
    - an explanation of the costs included in the total capital costs of the project, including NGTL's portion
    - the underlying cumulative present value cost of service calculation
    - further detail with respect to the customer contribution and the incremental cost attributed to meet the customer's requirements .... Paragraph 205

9. Accordingly, the Commission directs ATCO Pipelines to establish a deferral account for debenture rates for the years 2013 and 2014 in its compliance filing to this decision. .... Paragraph 221

10. With respect to CAPP's concern that ATCO Pipelines' O&M expenses are increasing excessively and reducing the expected benefits of Integration, CAPP fails to consider the underlying cost drivers, such as compliance with IFRS requirements and enhanced pipeline integrity initiatives. In light of CAPP's argument that customers have failed to see the permanent cost savings expected from integration, ATCO Pipelines is directed in its next GRA to provide a detailed explanation of all cost savings associated with Integration and any new costs resulting from integration. .... Paragraph 250

11. ATCO Pipelines also included in its O&M labour forecast a vacancy rate of 3.5 per cent. In AUC-AP-3(d), ATCO Pipelines provided ATCO Pipelines' actual vacancy rates from 2008 to 2012 of 6.1 per cent, 3.6 per cent, 6.5 per cent, 6.2 per cent, and 4.4 per cent respectively. Based on ATCO Pipelines' historical vacancy rates, the Commission considers that a vacancy rate based on a five-year average is more reflective of past experience. The Commission approves a vacancy rate of 5.36 per cent and directs ATCO Pipelines to adjust its vacancy rate and its impact on ATCO Pipelines' revenue requirement in its compliance filing. .... Paragraph 256

12. Although the CCA argued that Decision 2013-111 did not include ATCO Pipelines, the Commission considers that the only reason that the findings from the decision did not apply to the 2012 test year was that ATCO Pipelines' 2012 revenue requirement was the result of a negotiated settlement. The Commission sees no reason to revisit the issues of appropriate cost causation principles or composite allocators because Decisions 2013-111 and 2013-293 dealt adequately with these issues. The matter of the quantum of ATCO's corporate costs was already approved in Decision 2013-358. AP is directed to file its ATCO Group costs consistent with Decision 2013-358 and taking into consideration the following directions provided to ATCO Electric in that decision:

- use the 2012 approved amount from Decision 2013-293 of $42.4 million, plus the inflationary factored approved in Decision to set the 2013 corporate costs
- use the actual results from the year 2011 as inputs in the allocation formula, including the December 31, 2011, results of ATCO Gas Australia
- use the actual headcount information at December 31, 2011, in calculating the allocation of the human resources function costs
- include details of how the internal audit function and human resource function allocations were arrived at
- include the 2014 forecast amounts that result from applying inflation of 2.1 per cent to the 2013 forecast amounts for the corporate office – supplies and corporate office – office rent functions; and applying inflation of 3.5 per cent to the 2013 forecast amounts for all other functions.
- include details of how the allocation percentages for the General, CU Public and CU Inc. Public categories were arrived at
- include the amounts for 2012, 2013 and 2014 on a functional basis for only the corporate costs that are allocated to ATCO Pipelines, separated out among General, CU Public, and CU Inc. Public .... Paragraph 277

13. As ATCO Group costs were placeholders pending completion of the Corporate Costs compliance proceeding (Proceeding ID No. 2594), ATCO Pipelines is directed in its compliance filing to refile its proposed ATCO Group corporate costs based on the Commission's findings from Decision 2013-111 and Decision 2013-293. .. Paragraph 278

14. There is no evidence establishing that these donations and sponsorships provide a clear benefit to utility customers and that such donations and sponsorships are required for the provision of utility service to customers. As such, ATCO Pipelines is directed in its compliance filing to remove donations and sponsorships costs from ATCO Pipelines' revenue requirement. .... Paragraph 292

15. The Commission finds that there is no evidence establishing that these corporate signature rights provide a clear benefit to utility customers and concludes that they are not required for the provision of utility service. Consequently, ATCO Pipelines is directed in its compliance filing to remove all corporate signature right expenses from its revenue requirement. ATCO Pipelines requested that donations, sponsorships and corporate signature rights be included in its revenue requirement as placeholders pending a decision on the Appeal of Decision 2011-391. The Commission noted that on September 23, 2013, the Alberta Court of Appeal rendered a judgement dismissing the ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. appeal of Decision 2011-391. Given the Court of Appeal judgement, ATCO Pipelines' requested placeholder for donations, sponsorships and corporate signature rights is denied. .... Paragraph 295

16. In light of the September 23, 2013 Alberta Court of Appeal judgement dismissing ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. appeal of Decision 2011-391, ATCO Pipelines is directed, as part of the compliance filing, to remove the inclusion of any pension costs from the defined benefit pension placeholder that is based on a higher COLA than the level approved in Decision 2011-391. .... Paragraph 333

17. Given that ATCO Pipelines' Account 452.00 - underground storage – structures and improvements, represents less than 1.0 per cent of its total study assets, the Commission considers that it is not necessary to delay making a finding on the life-curve parameters for this account. Accordingly, the Commission directs ATCO to maintain the existing 30-R2.5 life curve for account 452.00 until it files its next depreciation study. The Commission expects that at that time ATCO Pipelines will file a complete analysis supporting its recommendations on this account. .... Paragraph 385

18. However, given that ATCO Pipelines' analysis concluded that a change in life-curve combination for this account is not required at this time, the Commission directs ATCO Pipelines to maintain the existing 24-R3 life-curve parameters for Account 454.00. .... Paragraph 391

19. The Commission does not consider that in these circumstances, changing market conditions should be a factor in determining the service life of a utility asset. On that basis, the Commission does not approve the proposal of ATCO Pipelines and directs the retention of the current life-curve combination of 37-R2.5. .... Paragraph 437

20. The Commission directs ATCO Pipelines to continue with its current net salvage of 20.0 per cent at this time for Account 453.00. .... Paragraph 481

21. Therefore, the Commission directs ATCO Pipelines to maintain its currently approved net salvage of -20.0 per cent for Account 454.00. .... Paragraph 487

22. Therefore, the Commission directs ATCO Pipelines to maintain its currently approved net salvage of -15.0 per cent for Account 463.00. .... Paragraph 494

23. Therefore, the Commission directs ATCO Pipelines to maintain its currently-approved net salvage of -20.0 per cent for Account 464.00. .... Paragraph 500

24. Therefore, the Commission directs ATCO Pipelines to maintain its currently approved net salvage of -5.0 per cent for Account 464.00. .... Paragraph 511

25. The Commission is not satisfied that the evidence before it on this issue supports a change to percentage net salvage for Account 466-01 – transmission - compressor equipment electronic and directs ATCO to maintain its currently-approved percentage net salvage of 0.0 at this time. .... Paragraph 516

26. Although Mr. Robinson made no recommendation to change the depreciation parameters for these accounts, in future depreciations studies ATCO Pipelines should provide support for its recommendations for all asset accounts, whether or not those recommendations include a proposed change or are a component of its depreciation study assets. ATCO Pipelines is directed to continue with the currently approved depreciation parameters for these accounts at this time. .... Paragraph 535

27. The Commission directs ATCO Pipelines to incorporate the use of the broad group procedure for the purposes of its amortization of reserve differences calculation in its compliance filing. .... Paragraph 542

28. Further, the Commission finds that the depreciation parameters approved previously for accounts 489.00, 491.00 and 498.01 do not appear to have been adequately addressed in ATCO Pipelines' detailed depreciation calculations. In the case of Account 489.11, the Commission directs ATCO Pipelines to provide, in its compliance filing, a reference to the decision where the service life of 25 years was approved. .... Paragraph 555

29. The Commission directs ATCO Pipelines, in its compliance filing to this decision, to incorporate any necessary corrections to its depreciation calculations or explain why no adjustments are required. .... Paragraph 556

30. Further, the Commission directs ATCO Pipelines, in its compliance filing, to prepare revised detailed depreciation calculations supporting its updated (approved and proposed) depreciation expense, similar to the format provided in response to AUC-AP-41. .... Paragraph 557

31. The Commission finds that this issue has not been adequately addressed in this proceeding and directs ATCO Pipelines in its next depreciation study to provide assurance to the Commission that its accounting records (including the database relied upon for its depreciation study) relating to its property, plant and equipment, accurately represent what is in service for the purpose of providing utility service. ..... Paragraph 563

32. The Commission directs ATCO Pipelines in its compliance filing to revise its revenue requirement to reflect the Commission findings with respect to:

- ATCO Pipelines 2012 final revenue requirement and related compliance filing, Decision 2013-064 and Decision 2013-326 respectively
- the ATCO Utilities, corporate costs and related compliance filing, Decision 2013-111 and 2013-293 .... Paragraph 566

33. ATCO Pipelines confirmed the timing of the events prior to any asset swap with NGTL, which includes the filing and approval (estimated at 12 months) of NGTL's asset swap application and the required front end engineering (estimated at six months following NEB approval). Because NGTL has yet to file its application, the Commission concludes that the $2,095,000 placeholder should not be approved, as commencement of the asset swap cannot reasonably occur prior to the end of 2014. As the exact date of NGTL's

asset swap filing with the NEB is unknown and any associated approval date of the asset swap application is also unknown, the Commission approves the use of a placeholder of $0.0 for all components of the asset swap included in ATCO Pipelines' 2013-2014 GRA. ATCO Pipelines is directed in its compliance filing to revise its placeholders for ATCO Pipelines' assets swap accordingly. .... Paragraph 584

34. ATCO Pipelines is directed to file an application with any required changes to ATCO Pipelines' revenue requirement for the test years when the NEB rules on NGTL's asset swap application. .... Paragraph 585