Decision **25663-D01-2021**

Alberta Utilities Commission

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

2021-2023 General Rate Application

March 1, 2021

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1 Decision summary

1. This decision provides the Alberta Utilities Commission's determinations on ATCO Pipelines' general rate application (GRA) for the 2021-2023 test years.

2. For the reasons set out in this decision, the Commission denies the requested revenue requirement of ATCO Pipelines for the 2021-2023 test years because certain revenue requirement amounts require adjustment in accordance with the Commission's findings. Specifically, the Commission directed adjustments or denied costs related to:

- Forecast general growth Improvements
- In-Line Inspection Program
- Weld Assessment and Repair Program
- Pipeline Facilities Security Program
- Overall operation and maintenance (O&M)
- Salary escalators
- Vacancy rates
- Pressure Vessel Inspection Compliance Program costs
- Mid-Term Incentive Program
- Property taxes
- ATCO Park - head office rent
- Shared services costs
- Debenture rates
- Preferred shares reset divided rates

3. The Commission has also established deferral account treatment for property taxes and COVID-19 pandemic costs, but denied ATCO Pipelines' proposed deferral account for large asset purchases.

4. The Commission has ordered ATCO Pipelines to respond to the findings and directions in this decision in a compliance filing to be filed no later than April 1, 2021.

2 Introduction

5. On June 16, 2020, ATCO Pipelines, a division of ATCO Gas & Pipelines Ltd., filed an application with the Commission requesting approval of the following:

- forecast revenue requirements of $316,943,000 for 2021, $331,748,000 for 2022 and $342,494,000 for 2023
- forecast opening balances for plant, property and equipment as of January 1, 2021
- the continued use of deferral accounts, reserve accounts and placeholders as identified in its application, in addition to the proposal of a new deferral account
- proposed depreciation rate changes resulting from a 2018 depreciation technical update[1] conducted by AUS Consultants, which reflects the continued use of the depreciation parameters approved in Decision 22011-D01-2017[2] to actual plant balances, as of December 31, 2018
- proposed settlement of certain regulatory deferral accounts and the 2017 to 2020 Weld Assessment and Repair Program (WARP) revenue requirement[3]
- prudence of all incurred capital[4]

6. ATCO Pipelines provided an overview of the main contributors to the year-over-year changes in its revenue requirement from 2021 to 2023. The revenue requirement increases of $12,334,000, $14,805,000 and $10,746,000 for 2021, 2022 and 2023 respectively, represent an average revenue requirement increase of 4.0 per cent per year.[5]

Table 1. ATCO Pipelines' revenue requirement changes

	($000)
2020 revenue requirement(1)	**304,609**
Impact of rate base growth	13,327
Operations and maintenance	522
Other	(1,515)
Forecast 2021 revenue requirement	**316,943**
Impact of rate base growth	11,745
Operations and maintenance	2,539
Other	521
Forecast 2022 revenue requirement	**331,748**
Impact of rate base growth	8,383
Operations and maintenance	1,827
Other	536
Forecast 2023 revenue requirement	**342,494**

(1)Per ATCO Pipelines' 2019-2020 compliance II filing (Proceeding 25789). Source: Exhibit 25663-X0001, Table 1.2-1, PDF page 6.

1 Exhibit 25663-X0007, Attachment 4.4.
2 Decision 22011-D01-2017: ATCO Pipelines, 2017-2018 General Rate Application, Proceeding 22011, August 29, 2017.
3 Exhibit 25663-X0008, Attachment 5.1.
4 Exhibit 25663-X0001, application, PDF pages 6-8.
5 Exhibit 25663-X0001, application, PDF page 6.

7. The Commission issued a notice of the application on June 17, 2020, with statements of intent to participate (SIPs) due June 24, 2020. In its notice, the Commission referenced ATCO Pipelines' proposal to hold a stakeholder discussion session on June 29, 2020. Parties were requested to confirm their participation or concerns regarding the proposed stakeholder discussion when filing their SIPs.

8. In response to the notice, SIPs were filed by:

- Canadian Association of Petroleum Producers
- The City of Calgary
- Consumers' Coalition of Alberta (CCA)
- Industrial Gas Consumers Association of Alberta (IGCAA)
- NOVA Gas Transmission Ltd. (NGTL)
- Office of the Utilities Consumer Advocate (UCA)
- Tenaska Marketing Canada, a division of TMV Corp.
- Western Export Group

9. The Commission determined that the application would be reviewed by way of a *full written process* in accordance with Commission Bulletin 2015-09.[6]

10. The Commission found that a stakeholder discussion session would assist in identifying and refining an issues list, consistent with rate proceedings process improvements identified in Bulletin 2016-18.[7]

11. On July 3, 2020, the Commission issued Bulletin 2020-25.[8] In that bulletin, subject to certain identified exceptions, the Commission implemented materiality thresholds for testing the revenue requirement for operations and maintenance (O&M) costs in cost of service applications. For the purpose of testing the current proceeding, the Commission determined that the materiality threshold of the greater of three per cent and $250,000 would be used to examine the differences between ATCO Pipelines' approved, actual and forecast O&M costs (including administration and general) prime accounts.

12. In an August 14, 2020 letter, the Commission granted an ATCO Pipelines' motion for confidential treatment of certain information requested on information technology (IT) rates and consensus forecast documents used by ATCO Pipelines to forecast debt rates. The process schedule for the proceeding included two rounds of information requests (IRs) to ATCO Pipelines, intervener evidence, IRs on intervener evidence, rebuttal evidence, argument and reply argument. Virtual oral argument and reply were held on November 30 and December 1, 2020.

13. The Commission considers the close of record for the proceeding is December 1, 2020, when oral argument and reply argument concluded.

[6] Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.
[7] Bulletin 2016-18, Rates proceedings process improvements, October 18, 2016.
[8] Bulletin 2020-25, Reducing regulatory burden with materiality thresholds for review of cost of service rate applications, July 3. 2020.

14. This decision reflects the Commission's findings on the contentious cost items forecast in the application, including updates to the application and compliance with previous Commission directions, and any matters that the Commission has otherwise determined are required to be specifically addressed. If a matter included in ATCO Pipelines' application is not specifically addressed in this decision, it is because the Commission finds the costs associated with the matter to be reasonable, and therefore the associated revenue requirement or rate base is approved for the purposes of this GRA decision.

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

3 Rate base

16. ATCO Pipelines' rate base consists of its mid-year plant in service plus necessary working capital. The following table sets out ATCO Pipelines' historical and forecast rate base:

Table 2. ATCO Pipelines' historical and forecast rate base

	2019 Actual	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
			($000)		
Mid-year plant in service	1,794,195	1,982,753	2,176,295	2,256,896	2,289,541
Necessary working capital	33,744	37,008	37,122	37,755	38,537
Rate base	1,827,939	2,019,761	2,213,417	2,294,651	2,328,078

Source: Exhibit 25663-X0001, application, Table 2.1-1, PDF page 19.

17. ATCO Pipelines explained that the revenue requirement increases identified in Table 1 are primarily driven by assets that were put into service for the Pembina Keephills Pipeline Project in 2020, by ongoing pipeline and facility integrity initiatives that will continue in the test years, such as the In-Line Inspection (ILI) Program, and the completion of the capital expenditure program for the Urban Pipeline Replacement (UPR) Program in 2022.[9]

Commission findings

18. The Commission has reviewed the estimated rate base for 2020. At the time of the close of record, ATCO Pipelines' actual closing 2020 rate base information was not available. The Commission makes no finding with respect to 2021 opening rate base because 2021 opening rate base must be determined when actuals are known. ATCO Pipelines' 2021 opening rate base amounts will also be affected by the Commission's findings in other areas of this decision. Because actual information will be available at the time of ATCO Pipelines' compliance filing, ATCO Pipelines is directed to provide its 2020 closing rate base actuals in its compliance filing to this decision.

[9] Exhibit 25663-X0001, application, paragraph 7.

4 Capital expenditures

19. ATCO Pipelines provided its capital expenditures and capital additions on a project-by-project basis offset by customer contributions. Those expenditures are reproduced in the table below:

Table 3. ATCO Pipelines' capital expenditures by project category

	2019 Actual	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
UPR	26,431	13,670	74,408	1,807	-
Growth	151,606	67,878	14,123	11,183	11,407
Improvements and replacements	109,697	101,190	101,449	119,914	98,111
Relocations	5,185	8,114	10,234	10,438	10,647
IT projects	5,162	7,290	4,493	2,628	4,836
Total	**298,081**	**198,142**	**204,707**	**145,970**	**125,001**
Contributions	(9,252)	(11,428)	(10,904)	(9,779)	(9,975)

Source: Exhibit 25663-X0001, application, Table 2.3-1, PDF page 22.

Commission findings

20. The Commission has reviewed the information on the record with respect to the capital projects not specifically addressed in this decision, and is satisfied that ATCO Pipelines has justified the need for these projects. A detailed breakdown of capital expenditures and projects is provided in Appendix 3 of this decision. The capital projects for the 2021-2023 test years that are not subject to specific findings and directions in this decision are approved as filed.

21. In the sections that follow, the Commission provides its findings on contentious capital programs and certain components of the capital costs that were at issue in this proceeding or otherwise require Commission findings.

4.1 UPR program

22. On January 17, 2014, the Commission issued Decision 2014-010[10] that approved the proposal related to the need for ATCO Pipelines' UPR program. The UPR program was comprised of 12 individual pipeline projects, four in Edmonton and eight in Calgary, all of which included construction of new high-pressure pipelines within transportation utility corridors to replace aging infrastructure and to meet the 20-year demand forecast for natural gas.

23. The CCA submitted that ATCO Pipelines has consistently overforecast the UPR program from 2017 to 2019, which has led to a significant over-recovery. The CCA recommended that ATCO Pipelines be directed to revise its 2021 forecast of $74.4 million to be split between 2021 and 2022 to reflect the likelihood of past delayed performance under the program.[11]

24. ATCO Pipelines submitted that the forecast UPR costs are supported by the information on the record of this proceeding and that the overall forecast for the program has not significantly changed from the last GRA.[12]

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[10] Decision 2014-010: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., Urban Pipeline Replacement Project, Proceeding 1995, January 17, 2014.
[11] Transcript, Volume 1, page 156, lines 1-13.
[12] Transcript, Volume 1, page 66, lines 14-25 to page 68, lines 1-10.

25. ATCO Pipelines added that the Northwest Calgary Connector (NWCC) Project represents the majority of the forecast capital expenditures in 2021 and 2022. As identified in Appendix 3, the forecast capital expenditures are $71.3 million in 2021 and $1.2 million in 2022. ATCO Pipelines asserted that the construction of the NWCC project is planned for commissioning in Q2, 2021, and recommended that the CCA's request for the splitting of costs be denied.[13]

Commission findings

26. While individual project forecasts have changed since Decision 2014-010, the overall forecast of the UPR Project remains within one per cent of the previous 2019-2020 GRA forecast. This shows a reasonable degree of forecast accuracy for the UPR program and the Commission finds that the forecasts are supported by the information on the record.

27. With respect to the NWCC project, the Commission approved the construction of approximately 14.3 kilometres (km) of 508 millimetre (mm) pipeline, two new gate stations and a new control station[14] in Decision 24827-D01-2020.[15] That decision was issued on April 1, 2020. ATCO Pipelines has stated in multiple IR responses that the construction of the NWCC is planned to commence in Quarter 3 (Q3) 2020 with commissioning in Q2 2021. Other work includes the transfer and abandonment of the Jumping Pound Transmission pipeline, and Spyhill Gate Lateral pipeline and the projects' associated branch pipelines. These projects are scheduled to be complete in 2022.[16] The Commission accepts ATCO Pipelines' projections and its expected timeline that commissioning of the NWCC project will occur in 2021.[17] Accordingly, the Commission approves ATCO Pipelines' forecast capital expenditures for the UPR program in the 2021-2023 test period, as filed.

4.2 Assets transferred or retired under the UPR program

28. In accordance with its Inter-Affiliate Code of Conduct, ATCO Pipelines is required to transfer individual assets or groups of assets used in utility operations between ATCO Pipelines and Utility Affiliates on a cost-recovery basis, which are recorded at net book value.

29. In Decision 23789-D01-2019,[18] Decision 24333-D01-2019[19] and Decision 25380-D01-2020,[20] the Commission denied certain UPR program assets that were proposed to be transferred from ATCO Pipelines to ATCO Gas, for capital tracker recovery in 2017. ATCO Pipelines

13 Transcript, Volume 2, page 396, lines 22-25 to page 397, lines 1-7.

14 The NWCC project consisted of the addition of a newly constructed pipeline (lines 99 to 136 – 14.3 kilometres of 508.0-millimetre outside-diameter pipeline), two gate stations, designated as the Crowfoot Gate Station and Nolan Hill Gate Station and a control station designated as the Big Hill Springs Control Station.

15 Decision 24827-D01-2020: ATCO Gas and Pipelines Ltd., Northwest Calgary Connector Pipeline Project, Proceeding 24827, April 1, 2020.

16 Exhibit 25663-X0001, application, PDF page 26.

17 Exhibit 25663-X0010, Attachment 7.1, PDF page 9.

18 Decision 23789-D01-2019: ATCO Gas and Pipelines Ltd., 2017 Performance-Based Regulation Capital Tracker True-Up, Proceeding 23789, January 22, 2019.

19 Decision 24333-D01-2019: ATCO Gas and Pipelines Ltd., 2017 Capital Tracker True-Up Compliance Filing to Decision 23789-D01-2019, Proceeding 24333, December 20, 2019.

20 Decision 25380-D01-2020: ATCO Gas and Pipelines Ltd., Decision on Preliminary Question Application for Review of Decision 24333-D01-2019 2017 Capital Tracker True-Up Compliance Filing to Decision 23789-D01-2019, Proceeding 25380, June 29, 2020.

requested to reflect the transfer of these assets back to it in the compliance filing to this decision, where these assets will be retired in the normal course of business.[21]

30. The CCA argued that ATCO Pipelines must confirm in its compliance filing that these assets are not included in the revenue requirements of this proceeding either on an actual or forecast basis and provide a detailed list to the Commission of any future asset transfers of this nature.[22]

31. ATCO Pipelines responded that asset transfers were derived from least-cost alternatives and that there is no reason to depart from the accepted practice where, the actual asset transferred is listed by segment name in its annual Inter-Affiliate compliance report.[23]

Commission findings

32. On the record of this proceeding, ATCO Pipelines provided the pipeline length per segment for each asset transfer, the associated revenue requirement impacts of $108,000 for 2021, $110,000 for 2022 and $111,000 for 2023 for UPR transfers or retirements, and the remaining net book value of $2.1 million. ATCO Pipelines acknowledged that the net book value of $2.1 million was removed from ATCO Gas' rate base.[24] [25] However, there is insufficient information to demonstrate that ATCO Pipelines has adjusted for the transfer or retirement of its UPR assets in its closing 2020 rate base. ATCO Pipelines is directed to file updated schedules showing the treatment of the asset transfers and retirements from its rate base, the corresponding associated revenue requirement impacts and the removal of the asset transfers or retirements from its closing 2020 rate base in the compliance filing to this decision. ATCO Pipelines is also directed to provide a detailed list of any future asset transfers of this nature in future proceedings.

4.3 Pembina-Keephills Transmission Pipeline Project

33. In Decision 23799-D01-2019,[26] the Commission approved ATCO Pipelines' Pembina-Keephills Transmission Pipeline Project (Pembina-Keephills pipeline) as a new high-pressure natural gas pipeline that provides natural gas transportation service to meet the incremental demand for electric power generation in the Wabamun area.

34. The CCA requested that ATCO Pipelines provide details about TransAlta's and Capital Power's modified plans regarding future power generating units in the Wabamun area since the release of the facilities approval in Decision 23799-D01-2019. The CCA further requested that ATCO Pipelines should also disclose the effects on demand and energy forecasts in the area in its compliance filing to this decision. Since there is excess capacity for both the Pembina-Keephills and the Pioneer pipelines for the contracted load, the CCA argued that these two pipelines do not result in the least-cost design for serving the load. It recommended that ATCO

21 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-012(b).
22 Transcript, Volume 1, page 157, lines 5-21.
23 Transcript, Volume 2, page 397, lines 18-25 to page 398, lines 1-7.
24 Proceeding 25863, Exhibit 25863-X0022, Appendix M, Schedule A2 of ATCO Gas' 2021 Performance-Based Regulation Rate Adjustment.
25 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-012(b) and Exhibit 25663-X0086, AP-AUC-2020SEP10-002.
26 Decision 23799-D01-2019: ATCO Gas and Pipelines Ltd., Pembina-Keephills Transmission Pipeline Project, Proceeding 23799, August 6, 2019.

Pipelines perform a least-cost analysis that would include quantification, comparison and integration of supply options for the contracted load.[27]

35. ATCO Pipelines stated that the need for the Pembina-Keephills pipeline remains the same[28] and while the Wabamun area forecast has changed since Decision 23799-D01-2019, both contract and forecast capacity requirements exceed what the system was able to provide prior to building the Pembina-Keephills pipeline.[29]

Commission findings

36. Given that the Pembina-Keephills pipeline is being put into service in 2020,[30] the Commission finds that there is no need for ATCO Pipelines to provide updated information about the plans of TransAlta and Capital Power regarding the power generating units in the Wabamun area in a compliance filing to this decision. ATCO Pipelines has provided sufficient information in support of its position regarding TransAlta's and Capital Power's modified plan[31] and it also provided relevant, updated capacity and demand forecasts for the Wabamun area in the facilities proceeding for the acquisition of the Pioneer pipeline, Proceeding 25937, which was further referenced in IRs in this proceeding.[32] [33] Because sufficient information has been provided by ATCO Pipelines, the Commission denies the CCA's recommendation and its corresponding request to perform a cost analysis in the compliance filing to this decision. The capital expenditures for the Pembina-Keephills pipeline project are approved, as filed.

4.4 General growth capital expenditures forecast

37. ATCO Pipelines forecast general growth capital expenditures of $2.856 million in 2021, $10.853 million in 2022 and $9.943 million in 2023.[34] The forecast was derived using a three-year rolling average of actual data for projects less than $15 million.[35]

38. ATCO Pipelines included the Stoney Transmission and Calgary Stoney and Nose Creek Gates projects (collectively the Stoney Project) with forecast capital expenditures of $15.07 million in its calculation of the three-year rolling average. In Decision 23587-D01-2018,[36] the Commission approved the Stoney Project which is required to support ATCO Gas' growing natural gas demand in north Calgary, including forecast demand at Calgary's new Stoney Compressed Natural Gas Bus Storage and Transit Facility. ATCO Pipelines noted that starting in

27 Transcript, Volume 1, page 178, lines 9-25 to page 179, lines 1-3.
28 Exhibit 25663-X0039.01, AP-UCA-2020JUL28-030(b)-(d).
29 Transcript, Volume 1, page 72, lines 19-25 and Transcript, Volume 2, page 408, lines 11-25 to page 409, lines 1-8.
30 Proceeding 23793, Exhibit 23793-X0001, application, PDF page 6.
31 See AP's reference to https://www.transalta.com/wp-content/uploads/2019/09/2019-Investor-Day-Presentation-Final-1.pdf and https://www.globenewswire.com/news-release/2020/05/04/2026685/0/en/Capital-Power-reports-solid-first-quarter-2020-results-and-reiterates-its-2020-financial-guidance.html in Exhibit 25663-X0039.01, AP-UCA-2020JUL28-030(b).
32 Proceeding 25937, Pipeline Transfer from Pioneer Pipeline Inc. to ATCO Gas and Pipelines Ltd.
33 Proceeding 25937, Exhibit 25937-X0030, AP-AUC-2020NOV03-002.
34 Exhibit 25663-X0001, application, Table 2.3.2-1, PDF page 30.
35 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-016(b)-(c).
36 Decision 23587-D01-2018: ATCO Gas and Pipelines Ltd., Stoney Transit Lateral Transmission Pipeline, Proceeding 23587, August 22, 2018.

January 2019 and continuing over a five-year period, Calgary will be converting its bus fleet to compressed natural gas.[37]

39. The UCA requested that the Stoney Project be removed from the three-year rolling average because the forecast costs are above the $15 million threshold; the project does not meet the criterion for repeatable work, i.e., work that is likely to occur in the three-year test period but was not known at the time of application; and does not meet the criterion of smaller projects identified less than one year in advance.[38] In addition, upgrades to support incremental demand over a 20-year period would have been foreseeable by ATCO Pipelines.[39] Once the Stoney Project is removed, the UCA stated that the three-year rolling average is reduced to an estimated $4.948 million.[40]

40. The UCA recommended that ATCO Pipelines be directed to revise its forecast methodology threshold to $10 million from the $15 million threshold because the current threshold captures projects that are not representative nor consistent with the nature of general growth capital expenditures, and creates an inaccurate forecast containing unrepresentative peaks.[41]

41. In response, ATCO Pipelines stated that its $15 million threshold serves as a guideline and is not a hard number and argued that the threshold should be higher by several millions.[42] It further submitted that the Stoney Project is driven by the growth of the local distribution company's system, which meets the repeatable work criterion and excludes large system expansion projects that are infrequent and unlikely to be completed within the three-year test period.[43]

Commission findings

42. In the original business case filed in Proceeding 23793, ATCO Pipelines stated that the Stoney pipeline and the Calgary Stoney Gate stations were forecast to be in service in 2019. The Nose Creek Gate station was forecast to be in service in 2022.[44] In reviewing the Stoney Project, ATCO Pipelines spent $7.231 million in 2018, $7.388 million in 2019, and accelerated its capital expenditures of $459,000 to 2021 to reflect the accelerated need for service from the Nose Creek Gate.[45]

43. ATCO Pipelines has referenced several criteria for whether a project is included in its three-year rolling average; namely, the project: is initiated and in-service within the test period;

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37 Proceeding 23793, Exhibit 23793-X0010, 7.2 Attachment, PDF page 53.
38 Transcript, Volume 1, page 229, lines 15-25.
39 Exhibit 25663-X0095, UCA evidence, PDF pages 41-42 and Exhibit 25663-X0105.01, UCA-AUC-2020OCT23-007(a)-(b).
40 Transcript, Volume 1, page 231, lines 11-13.
41 Transcript, Volume 1, page 230, lines 4-25 to page 231, lines 1-8.
42 Transcript, Volume 2, page 415, lines 20-25 to page 416, lines 1-17.
43 More specifically, ATCO Pipelines stated that repeatable projects are driven by the growth of the system (residential growth, co-gen facilities, commercial CNG fleets, ag-bio facilities, small-scale power generation, agricultural facilities, or increased throughput for existing facilities) and exclude large system expansion projects or industrial growth projects, which tended to be stand-alone projects that are infrequent and unlikely to be completed within the three-year test period.
44 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, PDF page 53-54.
45 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-015(a) Attachment and AP-AUC-2020JUL28-017(c).

is under a $15 million threshold; and meets the intent of "repeatable work." The Commission finds that the Stoney Project does not meet ATCO Pipelines' threshold of $15 million for use in the three-year rolling average. The Commission does not agree with ATCO Pipelines that this threshold serves only as a guideline.[46] It is reasonable to have a cut-off point for the calculation of a three-year rolling average for general growth projects and the $15 million threshold has been previously accepted for general growth projects.[47] The Commission directs ATCO Pipelines to remove the Stoney Project from ATCO Pipelines' three-year rolling average used to forecast general growth costs. The Commission does not accept the UCA's request for a reduction of the threshold to $10 million because there is insufficient evidence to support that a $10 million threshold is superior to a higher threshold in preparing forecasts for general growth project capital expenditures.

44. ATCO Pipelines is directed to revise its revenue requirement and capital expenditure forecasts in its compliance filing to this decision to reflect the removal of the Stoney Project from the three-year rolling average in the general growth category. The $15 million threshold for including capital projects in ATCO Pipelines three-year rolling average for general growth projects is confirmed.

4.5 ATCO Pipelines' assets and the Integration Agreement

4.5.1 Assets in rate base

45. ATCO Pipelines and NGTL are both owners and operators of natural gas transmission assets in their respective geographical areas. An Integration Agreement between ATCO Pipelines and NGTL was approved by the Commission in Decision 2010-228.[48]

46. The CCA sought to confirm that ATCO Pipelines is complying with the Integration Agreement and that all of its assets in rate base are "used and useful." It recommended that ATCO Pipelines be directed to identify its procedure for collaborating with NGTL, as prescribed in the Integration Agreement; provide a summary of its compliance with this process; and report on all facilities that are abandoned, removed and retired in all future GRAs.[49]

47. ATCO Pipelines responded to the CCA stating that it had already identified its procedures for collaborating with NGTL and that it conducts its asset review for "used and useful" independently of NGTL except to verify contractual status of, and potential interest in service provided by the asset. Further, it explained that NGTL holds the contracts for all customers on the ATCO Pipelines system and it cannot provide a historic listing of delivery or receipt contracts.[50]

Commission findings

48. As stated in Decision 2010-228, the Integration Agreement specifies that ATCO Pipelines is to apply to the Commission for its revenue requirement, which when approved, flows through NGTL's rates. ATCO Pipelines and NGTL swapped ownership of certain physical

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[46] Transcript, Volume 1, page 69, lines 22-24.
[47] Proceeding 23793, Exhibit 23793-X0001, application, PDF page 37.
[48] Decision 2010-228: ATCO Pipelines, 2010-2012 Revenue Requirement Settlement and Alberta System Integration, Proceeding 223, May 27, 2010.
[49] Transcript, Volume 1, page 160, lines 11-25 to page 161, lines 1-4.
[50] Exhibit 25663-X0047, AP-CCA-2020JUL28-016, and Transcript, Volume 2, page 400, lines 5-14.

assets within distinct operating territories in order to implement a single rates and services structure for regulated gas transmission service in Alberta. At the same time, separate ownership, management and operation of ATCO Pipelines' and NGTL's individual assets are maintained.[51]

49. The Commission accepts ATCO Pipelines' explanation that it has not been necessary to remove any assets from rate base in the last three years. The Commission also accepts ATCO Pipelines' explanation that it conducts its asset review independently of NGTL, except for contracts regarding service of certain assets. Because GRAs generally do not occur on an annual basis, the Commission reminds ATCO Pipelines that it is required to continually review its assets to ensure that they are used and required to be used for utility service, and it is obligated to report any assets that are discontinued, abandoned and removed from rate base, at the time the assets are no longer required for utility service.

4.5.2 Alberta System Annual Plan

50. The CCA stated that under Section 4.5(c) of the Integration Agreement, NGTL is required to prepare and maintain the Alberta System Annual Plan (Annual Plan) to describe the facilities required for the Alberta system, including the ATCO footprint. The CCA maintained that the Annual Plan should be part of each ATCO Pipelines GRA. The CCA recommended that ATCO Pipelines be directed to ensure the Annual Plan relevant to the test years is included in each filing going forward to confirm the longer-term plans for the Alberta System and increase transparency for any required upgrades.[52]

51. ATCO Pipelines responded that filing the Annual Plan in a GRA would provide no new information than what is already filed in the application, and that projects that are part of the Annual Plan, such as the Pembina-Keephills pipeline and the Pembina-Keephills expansion facility, were filed in accordance with the terms of the Integration Agreement.[53]

Commission findings

52. In Decision 22011-D01-2017, the Commission stated:

> 68. With respect to filing NGTL's annual plan, the Commission is not persuaded that the annual plan and additional information is required for the Commission to assess ATCO Pipelines' capital expenditures and forecast revenue requirement. Moreover, as the information is publicly available, the information is available to parties and can be filed on the record if a party considers that it would be of assistance to the Commission in assessing ATCO Pipeline's expenditures and forecasts in a future rate application. The CCA's request is therefore denied.

53. For the same reasons, the Commission remains unconvinced that it should direct the filing of the publicly available Annual Plan. The CCA's request for ATCO Pipelines to file the Annual Plan in future GRAs is denied.

4.6 In-Line Inspection Program

54. ATCO Pipelines is continuing with its multi-year In-Line Inspection Program (ILI program), which was initiated to assess pipeline integrity. ATCO Pipelines included forecast

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[51] Decision 2010-228, paragraph 115.
[52] Transcript, Volume 1, page 161, lines 13-25.
[53] Transcript, Volume 2, page 400, lines 15-25 to page 401, line 1.

capital expenditures for the ILI program for: one-time pipeline upgrades, on-going inspections, on-going digs and removal costs associated with pipeline upgrades and critical digs.

55. ATCO Pipelines stated that the forecast completion of pipeline upgrades has been extended from 2023 to 2027.[54] The previous 2019-2020 GRA included a forecast for upgrades of $252,536,000 to be completed by 2023, which was broken down into capital costs of $245,373,000 and removal costs of $7,163,000.[55] ATCO Pipelines provided an updated forecast based on the actual cost of upgrades completed to date. In its application, ATCO Pipelines is requesting the forecast capital cost for upgrades to increase by $52,009,000, for a total amount of $306,039,000, including capital costs of $297,382,000 and removal costs of $8,657,000. This increase was attributed to higher material costs and contractor rates.[56]

56. The forecast completion of the inspections has been extended from 2025 to 2028. The forecast costs for inspections filed in the 2019-2020 GRA was $48,097,000.[57] ATCO Pipelines provided an updated forecast based on the actual cost of inspections completed to date. ATCO Pipelines is requesting that the forecast capital costs for inspections increase by $34,203,000, for a total amount of $82,300,000. This increase is attributed to higher ILI tool rental costs and contractor rates, as well as inspections utilizing crack-detection in-line tools being added.[58]

57. The forecast completion of digs has been extended from 2025 to 2029. The forecast costs for digs filed in the 2019-2020 GRA was $90,962,000, which was broken down into capital costs of $90,635,000 and removal costs of $327,000[59] ATCO Pipelines provided an updated forecast based on the actual cost of digs completed to date. ATCO Pipelines is requesting that the forecast capital cost for digs increase by $24,299,000, for a total amount of $115,771,000, including capital costs of $114,934,000 and removal costs of $837,000. This increase reflects actual costs due to dig locations that require a pipeline segment replacement, and additional digs resulting from crack-detection inspections.[60]

58. The forecast completion of removals has been extended from 2025 to 2029. The forecast costs for digs filed in the 2019-2020 GRA was $4,470,000.[61] ATCO Pipelines provided an updated forecast expenditures amount of $9,494,000.[62]

Commission findings

59. For the reasons that follow, the Commission finds that the updated forecast capital expenditures related to the ILI program were not supported by the evidence on this record.

60. First, ATCO Pipelines proposed schedule extensions for each of upgrades, inspections, digs and removals. ATCO Pipelines stated that the typical timeline for a pipeline segment's inspection is: upgrades completed in year 1, inspections in year 2, and digs in year 3. Therefore,

54 Exhibit 25663-X0012, Attachment 7.3, Table 1, PDF page 3.
55 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, Table 1, PDF pages 68-69.
56 Exhibit 25663-X0012, Attachment 7.3, Table 1, PDF page 4.
57 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, Table 2, PDF pages 69-70.
58 Exhibit 25663-X0012, Attachment 7.3, Table 2, PDF page 5.
59 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, Table 3, PDF pages 70-71.
60 Exhibit 25663-X0012, Attachment 7.3, Table 3, PDF page 6.
61 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, Table 4, PDF page 72.
62 Exhibit 25663-X0012, Attachment 7.3, Table 4, PDF page 7.

upgrades are forecast for completion in 2027, with inspections being completed in 2028, and digs and removals in 2029. ATCO Pipelines stated that in 2019 and 2020, fewer upgrades were completed than forecast, as resources were focused on completing inspections and a large number of resulting digs. With more reinspections coming due in future years, the amount of resources available for upgrades and the impact to system operations will need to be balanced, resulting in the proposed schedule extension for upgrades, inspections, digs and removals. The Commission finds that ATCO Pipelines has not provided sufficient justification for the number of reinspections required in the test years nor adequate explanation for why there will be more reinspections coming due in future years.[63]

61. ATCO Pipelines stated that the actual average cost per upgrade increased due to higher material costs and contractor rates as well as a general increase in complexity of site upgrades compared to those that informed the 2019-2020 GRA business case assumptions. Apart from this statement, ATCO Pipelines did not provide any further justification for why a site requiring an upgrade is to be more complex or why material costs or contractor rates have risen in such significant amounts from the 2019-2020 GRA.[64]

62. Similarly, increased costs for ILI rental tools and higher contractor rates have increased the costs of inspections. Specifically, crack-detection in-line tools have been added to the program, which have resulted in increased inspection runs and additional digs resulting from those crack-detection inspections. ATCO Pipelines maintained that with advances to inspection execution, ILI tool vendors have required more pipeline preparation activities prior to using their smart inspection tools, and advanced their safety processes. ATCO Pipelines also stated that ILI data has undergone more post-run processing to better inform decisions regarding the overall inspection analysis, resulting in additional follow-up inspection runs.[65]

63. The Commission has reviewed the tables in the ILI business case and there is insufficient support for an increase in the upgrades, inspections, digs and removals that are subsumed in the ILI program in the test years. ATCO Pipelines has elected to extend work under the ILI program for upgrades, inspections, digs and removals to future test periods even though the program was to be completed by 2023 for upgrades and 2025 for inspections and digs.[66] The Commission finds that the business case does not provide sufficient support for why the four program items should be extended beyond the approved 2023 and 2025 test periods.

64. Further information about the barriers for completion of work and more specific information on the need for a significant extension of the program would have assisted the Commission in assessing the updated forecast cost increases associated with the ILI program. For example, extensions to a capital spend program might be reasonable if labour or contractors are not available, or if frozen ground conditions persist, or unusual weather-related events prevent the steady progression of work. Evidence of these types of situations is not on the record. In any event, the Commission is not satisfied that ATCO Pipelines has adequately explained the need for the significant increase in capital expenditures to ensure pipeline integrity in the test years, and costs for items such as higher ILI tool rental costs and contractor rates. There should have been further support provided for the ILI program given that historical levels of work undertaken were not as expected, further rationale for the cost increases, and a thorough

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63 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-021(c).
64 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-021(a).
65 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-021(a).
66 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, PDF page 66.

description of the underlying drivers that resulted in an extension of the ILI program beyond 2023 for pipeline upgrades and 2025 for inspections and digs. The Commission denies the updated forecasts for inclusion in the improvement and replacement capital expenditures for the 2021 to 2023 test period. ATCO Pipelines is directed to revise its forecasts to maintain its previously approved 2020 ILI amounts for pipeline upgrades, inspections, digs and removals from Decision 23793-D01-2019,[67] in its compliance filing.

4.7 Weld Assessment and Repair Program

65. ATCO Pipelines' application included costs associated with its Weld Assessment and Repair Program (WARP), which assesses and replaces all in-service pre-fabrication welds identified to have the potential to contain deficiencies as a result of insufficient radiographic inspections. Under the program, any weld deemed unacceptable, following an engineering assessment, will be remediated or replaced.

66. In its application, ATCO Pipelines identified three updates to the scope, timing and costs for the program. In the 2019-2020 GRA, ATCO Pipelines stated that the WARP program began in 2015 and was forecast to be complete in 2021. The total WARP program cost was estimated at approximately $67,133,000, and included $36,809,000 in reinspection costs, $28,989,000 in repairs, and $1,345,000 in removal costs.[68]

67. ATCO Pipelines is requesting that the timeline be extended from 2020 to 2023 for inspections and from 2021 to 2023 for repairs. The program is expected to be completed by the end of 2023. ATCO Pipelines is requesting that the total WARP program costs be increased by the Commission to approximately $72,649,000, which includes $56,277,000 in reinspection costs, $15,783,000 in repairs, and $589,000 in removal costs.[69] For scope of the program, ATCO Pipelines proposes to decrease the number of welds requiring inspections from 24,500 to 24,100, and decrease the number of welds that require repairs from 710 to 395.[70]

68. ATCO Pipelines provided a table showing that as of 2019, it spent $32,617,000 for inspections and $8,943,000 for repairs. The remaining capital expenditures for 2020-2023 are $23,660,000 for inspections and $6,8400,000 for repairs:

Table 4. WARP Inspection and repair costs

	Inspections	Repairs	Total
	($000)		
2018 Life to date	21,250	8,533	29,783
2019 actual	11,367	410	11,777
2020 update	9,900	600	10,500
2021 forecast	5,800	1,200	7,000
2022 forecast	4,560	2,440	7,000
2023 forecast	3,400	2,600	6,000
Total	**56,277**	**15,783**	**72,060**

Source: Exhibit 25663-X0012, Attachment 7.3, Table 2, PDF page 85.

67 Decision 23793-D01-2019: ATCO Pipelines, 2019-2020 General Rate Application, Proceeding 23793, June 25, 2019.

68 Proceeding 23793, Exhibit 23793-X0010, Attachment 7.2, Table 2, PDF pages 142 and 144.

69 Exhibit 25663-X0012, Attachment 7.3, Table 2, PDF page 84 and Exhibit 25663-X0036.01, AP-AUC-2020JUL28-024(a).

70 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-024(a).

Commission findings

69. The Commission finds that the increases on the forecast expenditure costs related to inspections for the WARP program, more specifically excavation costs, have not been supported by the information on the record.

70. Based on the evidence filed for this proceeding, the cost per weld inspection has remained the same, and uses the same assumptions, as the 2019-2020 GRA. However, average excavation costs increased from $37,000 to $55,000 for sites to reflect actual projects completed in the second half of 2018 and 2019, i.e., using more recent data. ATCO Pipelines explained that forecast excavation costs are calculated using the average for actual expenditures for completed projects. ATCO Pipelines maintained that its project excavations have become more time consuming and costly than originally estimated in the 2019-2020 GRA. The increase in cost can be attributed to factors that include site conditions (wet/frozen) at the time of excavation, backfill and reclamation, access issues requiring the use of rig matting, size of required excavations to locate all target welds per project, depth and accessibility of welds at congested sites that require shoring and the variation in number of welds exposed per excavation.[71] ATCO Pipelines confirmed that there are no other additional cost drivers that have contributed to the increase in weld inspection costs.[72]

71. The Commission is concerned that increases in average excavation costs are driving a significant increase in capital expenditures: from $36,809,000 to $56,277,000 in weld inspection costs. Reviewing the sample of projects provided by ATCO Pipelines to illustrate increased excavation costs,[73] the Commission is not satisfied that ATCO Pipelines has adequately justified why average excavation costs have increased from $37,000 to $55,000. The Commission observes that there was a significant increase in capital expenditures in 2019 for completed projects, where the average cost per site has doubled in 2019 in comparison to prior years.[74] Although each individual project presents unique excavation challenges,[75] the Commission finds that the types of excavation challenges that ATCO Pipelines has identified (i.e., wet or frozen site conditions, backfill and reclamation, access issues, size of required excavations to locate all targeted welds per project, depth and accessibility of welds at congested sites that require shoring and the variation in number of welds exposed per excavation) would have also been present for projects prior to 2019 given the level of activity. As a result, the Commission is not prepared to approve ATCO Pipelines' increased average excavation costs of $55,000 as a representative number for this period, as these increases in excavation costs have not been reasonably supported on the record. The Commission is of the view that the actual projects identified by ATCO Pipelines in 2018 and 2019 only represent a limited snapshot. Nevertheless, the Commission is willing to accept that there may be instances where actual excavation costs will increase in the future. As a result, ATCO Pipelines is directed to revise its 2021-2023 weld inspection forecast by calculating the average excavation costs per site using the actual data from projects completed from the initiation of the program in 2016 to the end of 2020, in its compliance filing.

71 Exhibit 25663-X0086, AP-AUC-2020SEP10-005(a).
72 Exhibit 25663-X0086, AP-AUC-2020SEP10-005(b).
73 Exhibit 25663-X0086, AP-AUC-2020SEP10-005(a).
74 Based on the sample projects, December 2016: $85,351/18 = $4,741; November 2017: $56,748/9 = $6,370; June 2018: $69,666/14 = $4,976; March 2019: $81,225/9 = $9,025; June 2019: $377,096/41 = $9,197 and November 2019: $310,655/35 = $8,875.
75 Exhibit 25663-X0086, AP-AUC-2020SEP10-005(a).

72. For weld repairs, ATCO Pipelines estimated the number of welds that will require repair is 395, and this number has been lowered from 710, due to the forecast repair rate being lower to reflect a downward trend in engineering assessment failure rates experienced in 2018 and 2019.[76] Since the weld replacement forecast has remained the same at $40,000 per weld but the number of weld repairs has been adjusted,[77] the Commission finds that the overall program costs for repairs has decreased from $28,979,000 to $15,783,000 due to a lower amount of welds requiring repair. The Commissions accepts ATCO Pipelines' justifications and approves the forecast capital expenditures for weld repairs, as filed.

4.8 Pipeline Facilities Security Program

73. ATCO Pipelines proposed to initiate a multi-year program to install security enhancements into its transmission system for 100, Level 2 sites deemed as needing "high security measures" over a five-year period concluding in 2025. ATCO Pipelines identified that Level 2 sites include pressure regulating stations, control stations, receipt stations, delivery stations and interconnects. These facilities are used to receive and deliver natural gas to the transmission system. ATCO Pipelines stated that they are critical to the reliable operation of the transmission system because they control the pressure and direction of natural gas flow in the system and any disruption in service would impact the ability to control the system.[78]

74. ATCO Pipelines determined its Level 2 site locations based on its proposed consequence model, which calculates a score using equal weighting of three consequence criteria as follows: (1/3 multiplied by history of security) + (1/3 multiplied by the throughput of natural gas) + (1/3 multiplied by the class location of associated pipeline).[79] A weighted score of 3.0 or greater was assigned Level 2 security treatment.[80]

75. The forecast capital costs of the Pipeline Facilities Security Program are provided in the table below:

Table 5. ATCO Pipelines' forecast capital expenditures for the Pipeline Facilities Security Program

Year	Number of sites	Engineering	Materials	Land	Construction	A/C power*	AFUDC**	Total
		($000)						
2021	20	41	685	-	294	-	-	1,020
2022	20	42	699	-	300	-	-	1,040
2023	20	42	713	-	306	-	-	1,061
2024	20	43	727	-	312	227	-	1,310
2025	20	44	742	-	318	232	-	1,336
Total	**100**	**212**	**3,567**	**-**	**1,529**	**459**	**-**	**5,767***

*A/C power is required at 12 identified sites without permanent power.
**Allowance for funds used during construction.
Source: Exhibit 25663-X0011, Attachment 7.2, Table 3, PDF page 124.

76. The UCA stated that ATCO Pipelines has been aware of theft increases at Level 2 sites since 2018, and its proposed security program in response is either exaggerated or delayed. In addition, ATCO Pipelines confirmed that the total cost of theft and mischief over the past five

76 Exhibit 25663-X0012, Attachment 7.3, PDF page 86.
77 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-024(a).
78 Exhibit 25663-X0011, Attachment 7.2, PDF page 121.
79 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-034(d).
80 Level 2 security treatment installations outlined in Exhibit 25663-X0036.01, AP-AUC-2020JUL28-034(f).

years is $236,000, and that it has not documented security upgrades in the past five years to respond to these incidents. The UCA maintained that there is no understanding of how critical and imminent a catastrophic threat is or what was required in the recent past to justify the forecast capital expenditures for the program. The UCA submitted that ATCO Pipelines' proposed security measures are in excess of what is actually required to prevent unwanted entry.[81]

77. The UCA critiqued the consequence model stating that prior history should not be a relevant consideration and requested that it be removed as an input. Further, the program itself should be reassessed. In doing do, the UCA recommended that ATCO Pipelines first deploy measures that achieve the desired result, which is to deter and prevent unwanted entry. Apprehension measures should only be deployed if deterrence and prevention measures prove inadequate. The UCA recommended that the Commission direct ATCO Pipelines to identify the very highest consequence sites, as a consideration for apprehension measures, where unwanted entry has occurred despite the entry prevention measures.[82]

78. The CCA agreed with the UCA that ATCO Pipelines failed to quantify the risk and listed the worst-case consequence projections without any supporting analysis of probability of events or magnitude of consequences. The CCA supported the UCA and added that ATCO Pipelines should be directed to confirm and quantify its past expenditures for site security and quantify the reported benefits of the previous work completed.[83]

79. ATCO Pipelines maintained that there is no basis for removing the effect of prior history from the model because it assists in identifying sites with a higher probability of an unwanted entry, which translates into a higher risk of severe consequences being realized. ATCO Pipelines maintained that no facility is included in the program based solely on prior history. ATCO Pipelines stated that all of the security measures contribute to preventing and deterring unwanted entry. The purpose of the program is to protect the public and to reduce the probability of a severe consequence event (i.e., loss of supply, gas release explosions, or system overpressure).[84]

Commission findings

80. Based on the evidence in this proceeding, 98 reported theft and mischief incidents have occurred over the last five years and 61 of those incidents were at Level 2 sites. ATCO Pipelines indicated that the number of reported theft and mischief incidents has risen in the last five years. Specifically, 30 reported incidents occurred in 2018 and 32 occurred in 2019. In comparison, there were 11 to 13 annual incidents from 2015 to 2017.[85] Despite this rise, the total cost to replace stolen or damaged assets was reported to be $236,000 over the last five years. Theft and mischief have resulted in one insurance claim that amounted to $4,000 over the deductible.[86] While the number of reported incidents is only one factor to consider, the Commission agrees

81 Exhibit 25663-X0095, UCA evidence, PDF page 47; Transcript, Volume 2, page 242, lines 6-21 and page 244, lines 5-8.
82 Exhibit 25663-X0095, UCA evidence, PDF page 42 and 47; Transcript, Volume 2, page 244, lines 17-25 and page 245, lines 1-18.
83 Transcript, Volume 1, page 163, lines 1-23.
84 Transcript, Volume 1, page 79, lines 2-23 to page 81, lines 12-23.
85 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-034(a) and Exhibit 25663-X0086, AP-AUC-2020SEP10-008(a).
86 Exhibit 25663-X0039.01, AP-UCA-2020JUL28-038(c) and (e), and Exhibit 25663-X0095, UCA evidence, PDF page 47.

with the UCA and the CCA that ATCO Pipelines has not adequately justified that the costs for this program are necessary given the monetary impact of theft and mischief at Level 2 sites.

81. Although ATCO Pipelines has responded to reported incidents and enhanced its security measures on an as-needed basis, it has not detailed the security measures or enhanced security measures that it has implemented at its sites in the past five years. The Commission finds that security enhancements should be tracked by ATCO Pipelines, particularly if it is proposing increased security measures that are over and above what is normally undertaken for its facilities and sites. ATCO Pipelines is estimating that approximately $50,000 per site is required to incorporate all security measures to a Level 2 site, but it anticipates that existing sites will have some existing security measures in place. However, if the program is approved, ATCO Pipelines will complete a detailed design in early 2021 that will include additional site visits with a security contractor to determine the scope of the upgrades required.[87] The Commission considers that the scope of work for this program is uncertain, particularly since ATCO Pipelines has indicated that the extent of site security upgrades will not be known until site visits are conducted.

82. The UCA suggested that a more cautionary and incremental approach to security upgrades is warranted. The Commission agrees. The Commission finds that it would be beneficial for ATCO Pipelines to start tracking the types of incidents, not just by theft or mischief, but how the outcome of the incident relates to risk. The utility may also wish to undertake some site visits with a security expert or consultant to understand if security upgrades are required and to advise on whether upgrades will mitigate the real risks to Level 2 sites. If ATCO Pipelines chooses to propose security upgrades to Level 2 sites in future applications, it is directed to: provide a cost-benefit analysis and a risk assessment to justify costs, in addition to information on the types of incidents at Level 2 sites and how the incident relates to a risk that should be mitigated through increased security measures; and review its inclusion of historical data and how historical information impacts its consequence model and risk assessment of sites.

83. The Commission finds that there is insufficient evidence to approve the proposed capital expenditures for increased security measures at Level 2 sites at this time and denies the Pipeline Facilities Security Program for the 2021-2023 test years. ATCO Pipelines is directed to remove the proposed capital expenditures for this program in its compliance filing to this decision.

4.9 Spruce Grove and Stony Plain Installation

84. The Stony Plain transmission pipeline is 16 km in length, of which approximately 4.1 km runs through the municipal limits of Stony Plain and Spruce Grove. ATCO Pipelines explained that the Stony Plain transmission pipeline was built in 1955, is not currently ILI compatible, and at the time of construction, had not been tested through a hydrostatic pressure test (HPT). Accordingly, ATCO Pipelines applied to abandon 10.4 km of its existing 114-millimetre (mm) Stony Plain pipeline, transfer the remaining 6.3 km of its 114-mm Stony Plain pipeline and the remaining 1.8 km of its 88-mm Stony Plain pipeline to ATCO Gas for conversion to low-pressure distribution service. To manage the subsequent loss of hydraulic capacity as a result of the proposed abandonment and transfer, ATCO Pipelines proposed to install 5.4 km of a new 219-mm pipeline loop to be tied into ATCO Pipelines' Swan Hills pipeline. The new pipeline

[87] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-08(h)-(i) and Exhibit 25663-X0086, AP-AUC-2020SEP10-008(b).

will provide increased capacity relative to the existing 114-mm Stony Plain pipeline and will provide sufficient gas supply to meet the 20-year demand forecast. The pipeline is forecast to be in service in 2022.[88]

85. The total project forecast cost is shown in the table below:

Table 6. ATCO Pipelines' forecast capital expenditures for the Spruce Grove and Stony Plain installation

Year	Engineering	Materials	Land	Construction	AFUDC	Total
	($000)					
2020	28	-	28	-	2	58
2021	93	-	327	66	18	504
2022	572	1,243	1,064	7,119	21	10,020
2023	53	91	143	591	4	882
Total	**746**	**1,334**	**1,562**	**7,776**	**45**	**11,464**

Source: Exhibit 25663-X0011, Attachment 7.2, Table 1, PDF page 79.

86. The CCA contended that if the Commission were to approve this project without evaluating the integrity concerns supported by engineering assessments, this would set an unacceptably low bar for proof of pipeline replacement need. That could lead to further pipeline replacements without the necessary level of evidence being provided.[89]

87. The CCA raised a concern that ATCO Pipelines failed to provide any specific evidence or justification for the removal or replacement of the pipeline and any engineering assessments to demonstrate whether the assets are suitable for distribution service or are unsuitable to be operated for transmission service.[90]

88. The CCA recommended that ATCO Pipelines be directed to comply with the inspection recommendations outlined in its External Corrosion Direct Assessment (ECDA) Indirect Inspection Final report,[91] and for the utility to complete a third-party engineering evaluation and a risk assessment with an industry expert to confirm the necessity of replacement.[92]

89. ATCO Pipelines responded that if it were to follow the recommendations of the ECDA report and complete the identified integrity upgrades, third-party engineering and risk assessments, this would result in higher costs.[93] ATCO Pipelines maintained that the assets are of benefit to providing distribution service, and subsequent integrity assessments are to be undertaken by ATCO Gas.[94] ATCO Pipelines submitted that lowering the operating pressure of these pipelines by transferring them to distribution service is analogous to a pressure test and will ensure continued safe operation of these pipelines.[95]

88 Exhibit 25663-X0011, Attachment 7.2, PDF pages 73-74 and 76-77.
89 Transcript, Volume 1, page 166, lines 12-17.
90 Transcript, Volume 1, page 165, lines 11-25 to page 166, line 1.
91 Exhibit 25663-X0047, AP-CCA-2020JUL28-013(c) Attachment 1, PDF page 106.
92 Transcript, Volume 1, page 166, lines 18-25.
93 Transcript, Volume 2, page 403, lines 3-8.
94 Exhibit 25663-X0047, AP-CCA-2020-July28-013(d).
95 Transcript, Volume 2, page 403, lines 14-25 to page 404, lines 1-4.

Commission findings

90. ATCO Pipelines stated that abandoning the pipeline and adding make-up capacity elsewhere on the system is less costly than performing the work required to make the pipeline ILI compatible or to perform an HPT.

91. ATCO Pipelines also considered four other alternatives to the project, all of which were higher in cost than ATCO Pipelines' proposed project.[96] One of the alternatives consisted of upgrading the 114-mm Stony Plain pipeline to make it ILI compatible, and subsequently conducting an HPT, as well as installing pipeline looping for natural gas demand in the area. This alternative is essentially the approach that the CCA recommended but will result in significantly higher costs than what ATCO Pipelines is proposing; the Commission rejects the CCA's recommendation. The Commission has reviewed the forecast costs of $11.464 million associated with the Spruce Grove and Stony Plain installation and is satisfied that ATCO Pipelines has adequately explained the need for the project and associated expenditures to ensure pipeline integrity. These costs have been reasonably supported on the record and are approved as filed. Any abandonment or transfers must be addressed at the time those assets are no longer used or required to be used for ATCO Pipelines' transmission service.

4.10 General improvement and replacements

92. ATCO Pipelines forecast general improvement and replacement capital expenditures of $26,437,000 in 2021, $27,517,000 in 2022 and $28,028,000 in 2023.[97] The forecast was derived using a three-year rolling average of actual data.

93. The CCA expressed concern about ATCO Pipelines' lack of transparency for the general improvement and replacement projects and recommended that the Commission require or direct ATCO Pipelines to:

(i) forecast general improvement and replacement costs using a five-year average of actual costs, excluding the outlier year of 2019, as the three-year rolling average is a flawed concept because individual projects have demonstrated wide year-to-year fluctuations;

(ii) provide detailed explanations and a plan in the compliance filing that explains the level of closing construction work in progress (CWIP) in the general category and identify a plan for its reduction to reasonable levels;

(iii) report on general category expenditures and provide a complete list of projects by category completed in the previous test years, including title, year of initiation, forecast and actual costs, capitalization date, AFUDC or IFRS amount, and actual CWIP tables;

(iv) provide descriptions for any significant changes in expenditures by grouping in the categories to make up the general improvement and replacement category; and

(v) identify and specifically forecast in future GRAs any improvements that are known and represent a program with a defined beginning and end.[98]

96 Exhibit 25663-X0011, Attachment 7.2, PDF pages 79-93.
97 Exhibit 25663-X0001, application, Table 2.3.3-1, PDF page 35.
98 Transcript, Volume 1, page 176, lines 19-25 to page 178, lines 1-3.

94. ATCO Pipelines confirmed that the 2019 closing CWIP balance for the general improvements and replacements category was higher than forecast, as some projects were initiated in 2019 and will extend to 2020. This was a result of long lead design material procurement and station fabrication activities associated with projects that required initiation in 2019 and will be commissioned in 2020.[99] ATCO Pipelines noted that the 2019 actual costs for general improvements and replacements in the amount of $27.7 million were not higher than previous year's actuals, and are not higher than 2021 to 2023 forecasts. ATCO Pipelines added that it has been underforecasting the general improvements and replacements category in each of 2017 to 2020, and it does not expect spending to slow down as the system continues to age. ATCO Pipelines stated that removing the 2019 actuals from the three-year rolling average would perpetuate the underforecasting for general improvements and replacements.[100] ATCO Pipelines added that there are over 1,000 individual projects for 2019 alone and many of them are less than $10,000, which is not material.[101] Business cases are provided for any unspecified project that exceeds the $500,000 threshold.[102]

Commission findings

95. The Commission observes that a similar concern was raised by the CCA and addressed in Decision 23793-D01-2019.[103] In that decision, the Commission confirmed that a three-year average of actual data was supported and approved its continued use. In reviewing the information in the current proceeding, the Commission still considers that ATCO Pipelines' use of a three-year rolling average of actual data to forecast general improvement and replacement costs is representative of ATCO Pipelines' costs for these projects. The Commission agrees with ATCO Pipelines that the data provided in the application supports that the utility has been underforecasting the general improvements and replacements category from 2017 to 2020. For these reasons, the Commission approves the three-year rolling average to forecast costs for general improvement and replacement capital expenditures costs, as filed.

96. With respect to the CCA's request for business cases, the Commission is satisfied with ATCO Pipelines' explanation that a business case would be filed for all unspecified projects that exceed $500,000 in the next GRA, consistent with the minimum cost threshold requirement for business cases established in Decision 2003-100.[104]

4.11 Construction work in progress

97. ATCO Pipelines provided its CWIP continuity schedules in response to a Commission IR, showing opening balance, capital expenditures, capital additions, and closing balance details for each of the 2019 forecast, 2019 actuals, 2020 forecast, 2020 estimate, 2021 forecast, 2022 forecast, 2023 forecast, on a project-by-project basis and for the five project categories and contributions (also on a project-by-project basis).[105]

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[99] Transcript, Volume 2, page 407, lines 7-14.
[100] Transcript, Volume 2, page 404, lines 22-25 to page 405, lines 1-9.
[101] See 2019 project list provided in Exhibit 25663-X0047, AP-CCA-2020JUL28-010, Attachment 1, as an example.
[102] Transcript, Volume 2, page 406, lines 20-25 to page 407, lines 1-6.
[103] Decision 23793-D01-2019, paragraph 85.
[104] Decision 2003-100: ATCO Pipelines, 2003/2004 General Rate Application – Phase I, Proceeding 13491, December 2, 2003, page 3.
[105] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-012(h), Attachment 1.

Commission findings

98. As CWIP schedules are provided in GTAs for electric utilities, the Commission finds that it would be beneficial for ATCO Pipelines to provide these schedules on a go-forward basis in each GRA, and that would avoid the Commission requesting these schedules in an IR in each GRA. ATCO Pipelines is directed to provide CWIP continuity schedules on a go-forward basis in its future GRAs.

5 Operating costs

99. ATCO Pipelines' revenue requirements include its forecast operating costs composed of O&M costs and administration and general (A&G) costs. ATCO Pipelines filed for approval of its forecast total operating costs of $73,527,000 in 2021, $76,066,000 in 2022 and $77,893,000 in 2023.[106] These forecast costs represent approximately 23 per cent of ATCO Pipelines' forecast total revenue requirement in each of 2021, 2022 and 2023.

100. The total operating expenses are shown in the following table:

Table 7. ATCO Pipelines' total operating expenses

Operating expenses	2019 Actual	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
O&M	35,845	40,800	42,965	44,776	46,047
A&G	29,500	33,306	34,642	34,980	35,638
Operating costs – corporate (subtotal)	**65,345**	**74,106**	**77,607**	**79,756**	**81,685**
Less disallowed operating costs	3,203	3,349	4,080	3,690	3,792
Total operating costs – utility	**62,142**	**70,757**	**73,527**	**76,066**	**77,893**

Source: Exhibit 25663-X0001, application, Table 4.2-1, PDF page 73.

101. In the sections that follow, the Commission will discuss certain components of the total operating costs that are at issue in this proceeding.

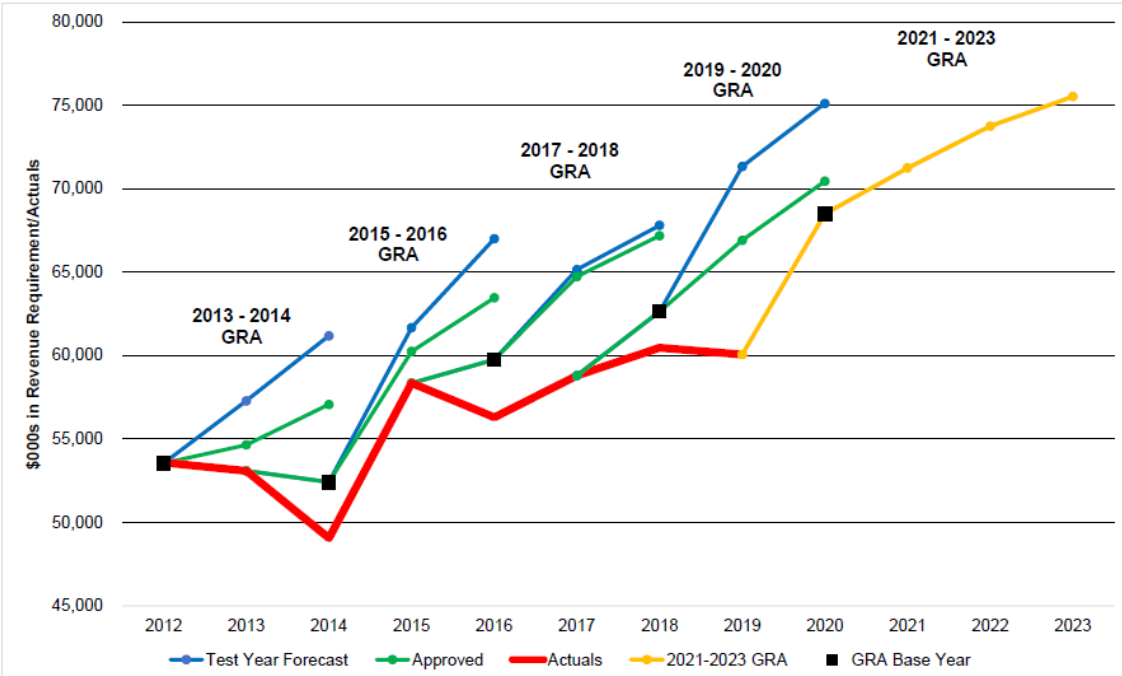
5.1 Forecasting accuracy

102. The UCA proposed a top-down adjustment of at least $4 million to forecast operating costs in each test year to correct for ATCO Pipelines' overforecasting operating costs in its prior GRAs. In addition, the UCA recommended specific line-item adjustments in other accounts.[107]

103. The UCA evidence included a review of ATCO Pipelines' last four GRAs noting material variances in operating costs. The figure below shows the overall trend of test year forecast, approved and actuals by GRA, with the Variable Pay Program (VPP) and pension costs excluded entirely from each category, and the figure reflects test year forecasts, approved amounts and actuals, as applicable:[108]

[106] Exhibit 25663-X0001, application, PDF page 76.
[107] Exhibit 25663-X0095, UCA evidence, PDF page 20.
[108] The UCA presented similar evidence in previous ATCO Pipelines GRAs and ATCO Pipelines took issue with the fact that the UCA's analysis had not considered the effect on cost levels of the VPP and the pension deferral account.

Figure 1. Operating costs – test year forecast excluding VPP and pension deferral amounts, approved and actual by GRA



Source: Exhibit 25663-X0095, UCA evidence, Figure 2-2, PDF page 17.

104. The UCA submitted that the available evidence suggests that ATCO Pipelines has demonstrated upward bias in its forecasting approaches, resulting in excessive returns on equity (ROEs).[109] Table 8 below, showing the difference between the actual versus approved ROE, is reproduced from the UCA's evidence:

Table 8. Actual versus approved ROE 2012-2020

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Estimate
Common equity return (%)	11.16	10.14	10.31	9.80	11.39	10.99	10.42	10.49	10.18
Common equity return ($000)	35,103	33,560	36,495	39,255	52,786	60,605	65,437	70,951	76,097
	2012 Approved	**2013 Approved**	**2014 Approved**	**2015 Approved**	**2016 Approved**	**2017 Approved**	**2018 Approved**	**2019 Approved**	**2020 Approved**
Common equity return (%)	8.75	8.30	8.30	8.30	8.30	8.50	8.50	8.50	8.59
Common equity return ($000)	28,166	27,718	30,060	35,016	42,615	47,327	53,578	57,276	64,278
	2012 Variance	**2013 Variance**	**2014 Variance**	**2015 Variance**	**2016 Variance**	**2017 Variance**	**2018 Variance**	**2019 Variance**	**2020 Variance**
Higher than approved (%)	2.41	1.86	2.01	1.50	3.09	2.49	1.92	1.99	1.68
Higher than approved ($000)	6,937	5,842	6,435	4,239	10,171	13,278	11,859	13,675	11,819

Source: Exhibit 25663-X0095, UCA evidence, Table 2-2, PDF page 10.

109 Exhibit 25663-X0095, UCA evidence, PDF page 12.

105. The UCA noted that its recommendation for a $4 million top-down adjustment to total forecast operating costs is within the amount ATCO Pipelines has consistently achieved, based on the information presented in Table 8.[110]

106. In response to the UCA's recommendation, ATCO Pipelines stated that applying both a top-down adjustment and specific line-item adjustments would introduce a double-counting of reductions in costs.[111] ATCO Pipelines submitted that top-down adjustments lack specific context, related to factors such as system growth and complexity, changing regulatory compliance requirements and inflation, specific drivers of underlying costs and one-time events.[112]

107. The CCA contended that the estimated amount of O&M expenses for the 2020 base year is excessive and supported a top-down adjustment of approximately $8.7 million to forecast operating costs over the test period.[113]

108. CAPP expressed concerns that both ATCO Pipelines' forecasts and Commission-approved levels for operating costs have consistently exceeded ATCO Pipelines' actual costs and urged the Commission to give appropriate weight to the evidence put forward by other interveners.[114]

Commission findings

109. The Commission is required to approve forecast costs for the safe and reliable operation of the system while ensuring just and reasonable rates for the service received by ratepayers.

110. The UCA evidence represents a high-level review of ATCO Pipelines' last four GRAs showing test year forecasts, approved and actual returns. In ATCO Pipelines' previous GRA, the UCA presented a similar analysis, but the Commission determined in Decision 23793-D01-2019 that it would evaluate forecast accuracy for each specific cost category because it considered that the UCA's high-level analysis had "value only to the extent that it shows a consistent trend of over-forecasting and where the over-forecasting cannot be otherwise reasonably explained by specific cost drivers…."[115]

111. In this proceeding, the Commission observes that over the 2012-2019 period where actual ROE data are available, ATCO Pipelines earned at least $4.24 million and a maximum of $13.67 million in excess of approved ROE levels. In addition, historical total O&M forecasts are greater than actuals for the 2015-2019 period by a minimum of $1.71 million (2.6 per cent) and a maximum of $7.02 million (10.3 per cent), after VPP and pension funding deferral adjustments.[116]

110 Exhibit 25663-X0105.01, UCA-AUC-2020OCT23-002(a), PDF page 4.
111 Exhibit 25663-X0125, AP rebuttal evidence, paragraph 11.
112 Exhibit 25663-X0125, AP rebuttal evidence, paragraph 8.
113 Transcript, Volume 1, page 141.
114 Exhibit 25663-X0128, CAPP argument, PDF page 2.
115 Decision 23793-D01-2019, paragraph 145.
116 Exhibit 25663-X0039.01, AP-UCA-2020JUL28-024(a), Table 1, PDF page 61.

112. ATCO Pipelines submitted that customers benefit from efficiencies achieved by the utility on a go-forward basis in future test periods[117] and cited three examples of specific one-time cost savings of approximately $3.95 million in total that form part of its 2020 estimate, such as efficiencies found in the Methane Reduction Compliance Program.[118] However, the Commission observes that estimated operating costs for 2020 are approximately $8.62 million higher than 2019 actuals, which corresponds to a 13.9 per cent increase in forecast costs. The Commission finds that ATCO Pipelines' reference to certain O&M efficiencies that have benefitted customers only partially supports ATCO Pipelines' approach to forecasting O&M costs.

113. While trends in forecasting are not necessarily determinative in setting forecast amounts for O&M, a consistent overforecasting of operating costs is concerning. An overforecasting trend may show that a utility may be too conservative in preparing its forecasts and in applying its forecasting assumptions, there may be insufficient incentives for the utility to find efficiencies in its operations, or there may be higher forecast costs due to operational issues that are not subject to regular review by utility management. Further, as noted by CAPP, a history of overforecasting can be particularly problematic in a period of financial hardship, where customers should not "bear the additional burden of forecast costs that exceed those [costs] that are required to provide safe and reliable service."[119]

114. The Commission notes that, while a trend analysis was rejected by the Commission in Proceeding 23793 as a method of assessing the forecasting ability of ATCO Pipelines, results of trend analyses have been used by the Commission to assess the reasonableness of a utility's test period forecasts in previous decisions.[120] In this case, the trend analysis demonstrates a consistent pattern of conservative forecasting by ATCO Pipelines, with the result being that the accuracy of ATCO Pipelines' forecasts have not been reflective of its costs for previous periods.

115. The Commission finds that the observed trend of overforecasting has not been reasonably explained or adequately attributed to specific cost drivers. Given that ATCO Pipelines has consistently and significantly "beat the forecast" over the nine-year period of actual and estimated data (2012-2020), demonstrating a consistent pattern of overforecasting, which has not been adequately explained or attributed to specific cost drivers, the Commission finds that a top-down adjustment to ATCO Pipelines' forecast operating costs is warranted. In future GRAs, ATCO Pipelines should ensure that it is taking operational efficiencies into account in preparing its forecasts and it should note any specific O&M categories where its forecasts contain conservative forecasting assumptions and the corresponding reasons for applying those assumptions.

116. The Commission directs ATCO Pipelines, in the compliance filing to this decision, to incorporate and provide an overall reduction to forecast operating costs of five per cent in each of 2021, 2022 and 2023. A five per cent top-down adjustment is within the range of adjustments

117 Exhibit 25663-X0039.01, AP-UCA-2020JUL28-024(b), PDF page 61.
118 Exhibit 25663-X0125, AP rebuttal evidence, paragraph 10.
119 Exhibit 25663-X0128, CAPP argument, PDF page 2.
120 For instance, see decisions 20633-D01-2016: EPCOR Energy Alberta GP Inc., 2016-2017 Regulated Rate Tariff Application, Proceeding 20633, December 20, 2016; 3577-D01-2016: ATCO Pipelines, 2015-2016 General Rate Application, Proceeding 3577, February 29, 2016; and 2013-430: ATCO Pipelines, 2013-2014 General Rate Application, Proceeding 2322, Application 1609158-1, December 4, 2013.

proposed by the CCA and the UCA, and in the Commission's view, is reasonable having regard to the range of historical variances between forecast, approved and actual costs.

117. To avoid the effects of double counting, ATCO Pipelines is directed to remove any cost categories where the Commission has made specific reductions in Section 5.2 to Section 5.9 before applying the five per cent top-down adjustment. As a result, the total O&M costs to be included in revenue requirement are: (i) the costs approved for the individual cost categories in Section 5.2 to Section 5.9; plus (ii) the cost approved for the remaining O&M categories not included in (i), with a five per cent reduction applied.

5.2 Salary escalators

5.2.1 In-scope employees

118. ATCO Pipelines and the Natural Gas Employees Association, representing association members (in-scope employees), negotiated a two-year collective agreement for the period January 1, 2019, to December 31, 2020. The agreement provides for an increase of 2.0 per cent and 2.25 per cent for in-scope employees in 2019 and 2020, respectively. ATCO Pipelines submitted that the agreement for periods covering 2021 and beyond has not been negotiated.[121]

119. In the application, ATCO Pipelines forecast an in-scope salary escalator of 2.2 per cent for each of 2021, 2022 and 2023. ATCO Pipelines submitted that its forecast inflation rate is consistent with recent Alberta wage settlements.[122]

120. The UCA is of the view that estimated labour costs for the base year of 2020 are substantially higher than 2019, and indicated that ATCO Pipelines' 2021 forecast only relies on a small number of settlements known at the time of the application. The UCA recommended that the inflation rate for in-scope labour be no more than 2.0 per cent for each of 2021, 2022 and 2023, which is the average of the inflation rates in 2018 through 2023.[123]

Commission findings

121. Given the limited amount of comparable wage settlement agreement data for 2021 (only seven out of the 23 wage settlement agreements), the current economic downturn and the impact of the COVID-19 pandemic, the forecast 2.2 per cent requested for each of the test years is high. The Commission finds that a 1.6 per cent increase for in-scope employees, which is the bottom of the average escalator range from 2017 to 2021,[124] is likely more representative of forecast salary escalators for the test period given the current economic conditions. Further, in the application, ATCO Pipelines also noted that the agreement for 2021 and beyond has not been negotiated, and negotiations were expected to commence in October 2020.[125] No updated information on a negotiated rate for ATCO Pipelines' in-scope labour rate was available at the close of record of this proceeding. For these reasons, the Commission approves a 1.6 per cent increase for each of 2021, 2022 and 2023. ATCO Pipelines is directed to revise its in-scope

[121] Exhibit 25663-X0001, application, PDF page 13.
[122] Exhibit 25663-X0001, application, Table 1.3-2, PDF pages 13-14.
[123] Exhibit 25663-X0095, UCA evidence, PDF page 25.
[124] Exhibit 25663-X0001, application, Section 1.3 – Assumptions, Table 1.3-2 - External Wage Settlements, PDF page 13.
[125] Exhibit 25663-X0047, AP-CCA-2020JUL28-007(b), PDF page 20.

employee salary escalator to 1.6 per cent and show the impacts to revenue requirements in its compliance filing.

5.2.2 Out-of-scope employees

122. ATCO Pipelines retained Mercer (Canada) Limited to provide advice with respect to the level of salary escalation applicable to out-of-scope employees. ATCO Pipelines forecast salary escalators of 1.2 per cent in 2021, 2.2 per cent in 2022 and 3.0 per cent in 2023 for out-of-scope employees.[126]

123. The Mercer report presents historical salary increase data up to 2019 and projections as of April 2020 for a peer group of 32 companies that compete with ATCO Pipelines for talent within the labour market.[127] The ranges of aggregate salary increase budgets recommended by Mercer were 0.8–1.2 per cent for 2021, 1.8–2.2 per cent for 2021 and 2.5–3.0 per cent for 2023.[128]

124. In the Mercer report, Mr. Kenneth Yung made the following statement with respect to its 2020-2023 salary escalation projections:

> In the absence of the impact of COVID-19 and the ensuing economic decline, we would have preferred to rely on the median 2019 actual and median 2020 forecasted salary increase budget from ATCO Pipelines Peer Group to build our estimated aggregate salary increase budget for the 2021 to 2023 test period. However, in light of recent events, we have opted to use the most recent and relevant data from the CPS – Energy comparator group instead, which suggests a median 2020 salary increase budget of 1.7%. In the absence of any salary increase budget forecasts for 2021 to 2023, it is our view that the most reasonable starting point to estimate these years is this most current 2020 forecast.[129]

125. ATCO Pipelines explained that the use of the higher end of the range recommended by Mercer is supported by ATCO Pipelines' total direct compensation being 15 per cent below the market median and total remuneration being 18 per cent below the market median. ATCO Pipelines submitted that its objective is to manage out-of-scope labour costs with the goal of being at the midpoint of the market at the 50th percentile.[130]

126. ATCO Pipelines provided the following table in its rebuttal evidence, showing that it has granted out-of-scope annual increases above Commission-approved increases:

Table 9. Out-of-scope compensation

	2017	2018	2019
	%		
AP approved increase	0.50	1.00	2.00
AP forecast increase	3.00	2.50	2.50
AP actual increase	2.80	2.42	2.37

Source: Exhibit 25663-X0125, AP rebuttal evidence, Table 3, PDF page 12.

126 Exhibit 25663-X0001, application, PDF page 14.
127 Exhibit 25663-X0003, PDF pages 1 and 13.
128 Exhibit 25663-X0003, PDF page 5.
129 Exhibit 25663-X0003, PDF page 5.
130 Exhibit 25663-X0001, application, PDF pages 14-15.

127. The UCA recommended that the inflation rate for out-of-scope labour be no more than the midpoint of the Mercer report recommendations (1.0 per cent for 2021, 2.0 per cent for 2022 and 2.75 per cent for 2023).[131]

Commission findings

128. The Commission has reviewed the Mercer report and finds that it is only one factor in assessing the level of required wage increases. The Mercer report does not supplant management judgement and other economic factors that must be considered before determining the salary level required to attract and retain talent in the Alberta market. The Commission considers that it is very difficult for any study to incorporate intangible factors such as the economic climate in Alberta, risk of job loss, labour productivity and the unemployment rate. In addition, the Commission notes that the Mercer report is based on 2019 and early 2020 data. In the Commission's view, given the long-lasting effects of the COVID-19 pandemic on the global economy to date, the Mercer report is not fully reflective of current economic and labour conditions. In fact, the Mercer report comments on the uncertainty of the recovery of the Alberta economy:

> Assuming the Alberta economy would start to recover in 2021, we believe salary increase budgets can follow the pattern we saw from 2015 to 2018. Specifically, for 2021, salary increase budget will likely fall around 1% (say 0.8-1.2%) as companies are still likely grapping [*sic*] with cost containment, before gradually bouncing back to more normal levels and track the rest of Canada in 2022 and 2023.[132]

129. Target total compensation includes items such as variable pay, perquisites, long-term incentive pay, pension and savings, and health and group benefits. Although some of these items are not included for recovery in ATCO Pipelines' revenue requirement, the Commission considers that it is incumbent upon ATCO Pipelines' management to review whether these forms of compensation are required to retain and attract employees. ATCO Pipelines can and should vary these items to meet its objectives with respect to total compensation. The target total compensation data from Mercer is only one measure that the Commission uses in approving out-of-scope labour forecasts.

130. The Commission is not persuaded that the current economic climate supports the out-of-scope labour escalation requested by ATCO Pipelines. The Commission finds that an out-of-scope labour escalation rate of 0.8 per cent for each of 2021, 2022 and 2023 is more reflective of the current market. For these reasons, ATCO Pipelines is directed to revise its out-of-scope employee salary escalator to 0.8 per cent and show the impacts to revenue requirements in its compliance filing.

5.3 Vacancy rate

131. ATCO Pipelines included a vacancy provision of 2.4 per cent in its labour forecast to give effect to the time lag between a position becoming vacant and the filling of that position based on the following four-year average vacancy rate calculation:[133]

131 Exhibit 25663-X0095, UCA evidence, PDF page 25.
132 Exhibit 25663-X0003, PDF page 5.
133 Exhibit 25663-X0001, application, PDF page 15.

Table 10. Vacancy rate

Total	2016	2017	2018	2019	Four-year average
Vacant positions	19	12	5	3	-
Establishment	415	417	357	375	-
Vacancy rate (%)	4.6	2.9	1.4	0.8	2.4

Source: Exhibit 25663-X0036.01, AP-AUC-2020JUL28-004(b)-(c), Table 1, PDF page 10.

132. ATCO Pipelines explained that it used a four-year average (2016-2019) as opposed to the historical and previously approved practice of basing vacancy provisions on a five-year average because it considers 2015 data to be an outlier due to higher vacancy rates caused by workforce reductions and eliminated positions.[134]

133. ATCO Pipelines also explained its use of total year-end vacancies to inform the vacancy rate assumptions as opposed to its historical practice of tracking vacancies on a weekly basis and identifying capital vacancies versus O&M vacancies. ATCO Pipelines stated that because its historical process is administratively burdensome, it reviewed the process to identify improved methodologies and found that vacant positions at year end have been indicative of the weekly vacancies and that the vacancy rate difference between capital and O&M was insignificant.[135]

134. In an IR response to the Commission, ATCO Pipelines provided the calculation of the actual capital, O&M and total vacancy rates for 2015-2019, including the four-year and five-year averages for comparison purposes. Based on a four-year average (2016-2019), the capital, operating and total vacancy rates were identified as 1.8, 2.2 and 2.0 per cent, respectively. Based on a five-year average (2015-2019), the capital, operating and total vacancy rates were identified as 3.3, 3.9 and 3.6 per cent, respectively.[136]

Commission findings

135. In its last GRA, ATCO Pipelines applied for a forecast vacancy rate calculated using a two-year average rather than a five-year historical average and argued for the exclusion of 2013-2015 from the calculation on the basis that those were anomalous years. In Decision 23793-D01-2019, the Commission denied that request and reiterated its view that using a five-year average of historical rates is a reasonable methodology to estimate vacancy rates as it is reflective of past experience and should account for variability in vacancy rates due to fluctuations in ATCO Pipelines' operating environment.[137]

136. ATCO Pipelines has not persuaded the Commission to depart from that view or to find that a change in the methodology for calculating vacancy rates using a five-year historical average for each of O&M and capital is otherwise warranted in this proceeding.

137. The Commission likewise considers that ATCO Pipeline's historical practice of tracking vacancies on a weekly basis yields better evidence and its practice of tracking vacancies to each of O&M and capital is more consistent with the Commission's approach to rate setting for this

[134] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-004(a), PDF page 9.
[135] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-004(b)-(c), PDF pages 9-10.
[136] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-004(b)-(c), Table 2, PDF page 10.
[137] Decision 23793-D01-2019, paragraphs 267-269.

cost category. ATCO Pipelines has failed to demonstrate that either of these practices is unreasonably burdensome or that a departure from them is otherwise warranted.

138. Accordingly, the Commission approves ATCO Pipelines' forecast vacancy rate of 3.9 per cent for O&M and 3.3 per cent for capital for each of 2021, 2022 and 2023. Consistent with this determination, ATCO Pipelines is directed to revise its forecast vacancy rates and show the impacts to revenue requirements in its compliance filing.

5.4 Pressure Vessel Inspection Compliance Program costs

139. In Decision 24817-D01-2020,[138] the Commission approved ATCO Pipelines' Pressure Vessel Inspection Compliance Program costs of approximately $1.56 million for inclusion in ATCO Pipelines' 2019 and 2020 revenue requirements. ATCO Pipelines stated that this program is required to bring ATCO Pipelines into compliance with the American Petroleum Institute Recommended Practice 510.[139]

140. In IR responses to the UCA, ATCO Pipelines submitted that it experienced contractor delays in 2019, as well as delays caused by the COVID-19 pandemic in 2020. ATCO Pipelines indicated that it now forecasts the program to be completed in early 2022 and provided an updated forecast for spending on this program:[140]

Table 11. Pressure Vessel Inspection Compliance Program updated forecast

	2019	2020	2021	2022
Actual/Estimate/Forecast ($000)	421	315	753	75
Forecast approved in Decision 24817-D01-2020 ($000)	609	953	-	-
Percentage of program complete	30	50	95	100

Source: Exhibit 25663-X0089, AP-UCA-2020SEP10-003(c)(ii), PDF page 7, and Decision 24817-D01-2020, Table 4, paragraphs 51 and 58.

141. The UCA submitted that, in Proceeding 24817, both it and the CCA had recommended ATCO Pipelines complete the program over a longer timeframe, but ATCO Pipelines maintained that its previous completion timeline was reasonable and necessary. The UCA further argued that ATCO Pipelines' revised forecasts for 2021 and 2022 in the current proceeding would result in ratepayers paying an additional $0.828 million in costs that were already paid in 2019 and 2020 rates.[141] For these reasons, the UCA recommended that ATCO Pipelines should be directed to remove the forecast costs for the Pressure Vessel Inspection Compliance Program of $0.753 million in 2021 and $0.075 million in 2022 from its revenue requirements.[142]

Commission findings

142. ATCO Pipelines bears the onus to satisfy the Commission of the reasonability of its programs and associated costs, failing which, it is at risk for a forecast disallowance. While ATCO Pipelines has explained why the Pressure Vessel Inspection Compliance Program was not completed in 2020, no sufficient explanation was offered for why additional funding is required to complete the program nor was any effort made to reconcile the request for $828,000 of

[138] Decision 24817-D01-2020: ATCO Pipelines, 2019-2020 General Rate Application Compliance Filing, Proceeding 24817, July 6, 2020.
[139] Decision 24817-D01-2020, paragraphs 50-51 and 58.
[140] Exhibit 25663-X0089, AP-UCA-2020SEP10-003(c)(i), PDF page 7.
[141] Exhibit 25663-X0095, UCA evidence, PDF pages 27-28.
[142] Exhibit 25663-X0095, UCA evidence, PDF page 28.

additional forecast costs with the fact that ATCO Pipelines received $826,000 in excess forecast costs in the 2019-2020 test period for the completion of the program (forecast costs above actuals of $188,000 in 2019 and approximately $638,000 in 2020).

143. ATCO Pipelines' request for an additional $828,000 in forecast costs to finalize the program in 2022 is therefore denied.

144. The Commission directs ATCO Pipelines, in the compliance filing, to remove the forecast costs for the Pressure Vessel Inspection Compliance Program of $753,000 in 2021 and $75,000 in 2022 from its revenue requirements.

5.5 Pandemic costs

145. ATCO Pipelines requested approval of approximately $2.3 million in forecast costs related to the COVID-19 pandemic over the test period. Those costs are detailed in the table below:

Table 12. ATCO Pipelines' pandemic-related costs

Pandemic costs	2021 Forecast	2022 Forecast	2023 Forecast
	($000)		
Personal protective equipment	577	589	300
Sanitation	64	65	33
Redeployment of staff	330	337	0
Total	**971**	**991**	**333**

Source: Exhibit 25663-X0036.01, AP-AUC-2020JUL28-006(a), Table 1, PDF page 21.

146. ATCO Pipelines submitted that its forecast is based on expected monthly usage and unit costs and that it is able to reasonably forecast the need for, and quantum of, these pandemic-related expenses over the test period.[143]

147. The UCA recommended that ATCO Pipelines be directed to establish a deferral account to track increased costs offset by any cost savings related to the pandemic, arguing that pandemic costs fit the criteria discussed by the Commission in Decision 2003-100 for the establishment of deferral accounts.[144]

Commission findings

148. For the reasons that follow, the Commission directs ATCO Pipelines to establish a deferral account to include the $2.3 million in forecast pandemic expenses over the test period.

149. Given the significant uncertainty that remains concerning the duration and impact of the COVID-19 pandemic, the Commission is not persuaded that ATCO Pipelines can reasonably forecast expenses associated with COVID-19 over the test period, and it agrees with the UCA that ATCO Pipelines' forecast of pandemic-related expenses satisfies the four criteria for a deferral account listed in Decision 2003-100:[145]

[143] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-006(c), PDF pages 21-22, and Exhibit 25663-X0125, AP rebuttal evidence, paragraph 30.
[144] Exhibit 25663-X0095, UCA evidence, PDF pages 28-29.
[145] Decision 2003-100, PDF pages 125-126.

(a) Materiality of the forecast amount

(b) Uncertainty regarding the accuracy and ability to forecast the amount

(c) Factors that affect the forecast are beyond the utility's control

(d) The utility is typically at risk for the forecast amount

150. The fifth criterion identified in Decision 2010-189,[146] the symmetry factor, is also met. Pandemic expenses are likely to differ from forecast amounts given the unpredictability of the COVID-19 pandemic. Such variances may harm ratepayers if actuals turn out to be lower, or be financially detrimental for ATCO Pipelines if actual amounts are higher than forecast. In the Commission's view, a deferral account reduces the risk of financial harm or benefit to either ATCO Pipelines or ratepayers. However, ATCO Pipelines is cautioned that it should make reasonable efforts to avoid incurring costs that are not reasonably required to ensure safe and reliable service to customers given the economic hardship of customers during the pandemic.

5.6 Mid-Term term Incentive Program

151. ATCO Pipelines submitted that the Mid-Term Incentive Program (MTIP) serves as a compensation tool to attract and retain experienced key employees, primarily at senior levels, and reward longer-term commitments to the company.

152. ATCO Pipelines acknowledged that the Commission denied the inclusion of MTIP costs in Decision 2013-430 because the program was solely tied to company performance.[147] However, it submitted that the program was redesigned in 2019, and for the majority of eligible employees, MTIP awards are now weighted 60 per cent to employee performance and 40 per cent to company performance.[148] ATCO Pipelines applied to recover only the employee performance component of MTIP for the 18 employees it expects will qualify for the award in the test period[149] as follows:

Table 13. MTIP

	2019 Actual	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
MTIP ($000)	10	43	86	120	133

Source: Exhibit 25663-X0001, application, Table 4.2.11-1, PDF page 104.

Commission findings

153. In the interests of cost-effective, timely and proportionate regulation the Commission issued Bulletin 2020-25, in which it introduced materiality thresholds for testing the revenue requirement for O&M costs in cost of service applications and stated that variances below the identified thresholds would not be expected to be explained by the applicant nor questioned by the Commission or other parties. An exception was recognized for cost items or issues that might be precedent setting or invoke regulatory accounting principles, adherence to Commission rules or previous directions.

154. ATCO Pipelines' materiality threshold is set at the greater of three per cent and $250,000. Although the variance between 2019 MTIP actual and the MTIP forecast amounts for 2021-2023

146 Decision 2010-189: ATCO Utilities, Pension Common Matters, Proceeding 226, April 30, 2010.
147 Exhibit 25663-X0001, application, PDF page 103.
148 Exhibit 25663-X0001, application, PDF pages 103-104.
149 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-057(d), PDF page 523.

is below the identified threshold, the Commission has nevertheless considered the applied-for amounts in the exceptional and precedent-setting circumstances of the COVID-19 pandemic and associated economic downturn.

155. Having regard to those circumstances and most particularly, the current economic conditions, ATCO Pipelines has failed to satisfy the Commission that MTIP awards are reasonably necessary to attract or retain experienced key employees or reward longer-term commitments to the company. The Commission denies ATCO Pipelines’ 2021-2023 forecast MTIP costs of $339,000 for the test period. ATCO Pipelines is directed to remove these costs from its revenue requirements in the compliance filing.

5.7 IT costs

156. ATCO Pipelines is requesting approval for:

- The addition of $8.213 million to opening 2021 rate base related to information technology (IT) capital projects[150] ($2.613 million in 2019 actuals and $5.600 million in 2020 forecast).

- Forecast IT direct capital expenditures of $11.957 million over the test period ($4.493 million in 2021, $2.628 million in 2022 and $4.836 million in 2023),[151] and forecast IT indirect capital expenditures of $1.517 million, $1.479 million and $1.444 million for 2021, 2022 and 2023, respectively, in accordance with Decision 20514-D02-2019 (the IT Common Matters decision).[152]

- Forecast IT costs charged to operations including costs to operate, maintain and distribute existing and new IT applications required by ATCO Pipelines to manage its financial, human resources and operational activities.

157. The actual, estimate and forecast IT costs charged to operations is set out in the table below:

Table 14. ATCO Pipelines’ IT costs charged to operations

	2019 Actual	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
Total	**4,094**	**3,968**	**4,067**	**4,210**	**4,273**

Source: Exhibit 25663-X0001, application, Table 4.2.6-1, PDF page 95.

158. Calgary took issue with ATCO Pipelines’ IT business cases for the capital projects included in the application. It argued generally, that those business cases are not adequately supported and fail to meet Commission directions in Decision 3577-D01-2016, for reasons

150 Exhibit 25663-X0050, AP-CAL-2020JUL28-009(b).
151 Exhibit 25663-X0001, application, Table 2.3.5-2, PDF page 50.
152 Exhibit 25663-X0053-C, AP-CAL-2020JUL28-008(b)-(c) Attachment 1.

including that most do not provide hard productivity benefits, a cost/benefit analysis or a cumulative present value (CPV) analysis over the project life.[153]

159. Further and more specifically, Calgary argued that the transformation from on-premise IT applications (provided by Wipro Solutions Canada Limited (Wipro)) to Cloud applications delivered as Software as a Service (SaaS) by new outsource providers including Oracle and IBM[154] was based on inappropriate and incomplete analyses that gave insufficient consideration to the possibility of a less costly Wipro solution and did not take into account the true cost of alternatives.[155] As a result, ATCO Pipelines' contractor costs are higher than they reasonably ought to be and disallowances consistent with the reductions ordered in the Common Matters decision are appropriate.

160. Additionally, no business cases were provided for certain of the smaller IT projects grouped into Enhancements, or as Lifecycle Management, and Enterprise, notwithstanding that, in Calgary's view, they required a business case.[156]

161. Calgary also asserted that ATCO Pipelines' internal labour costs are high compared to industry norms and its overall forecast IT spend is excessive compared to other utilities. Calgary relied on a report from Computer Economics,[157] which shows that ATCO Pipelines' IT metrics for 2020-2023 are 150 per cent to 250 per cent higher than those of other utilities.[158]

162. Calgary proposed the following reductions to ATCO Pipelines' opening rate base and IT capital forecast:

Table 15. Calgary reductions to opening rate base

2019-2020 opening rate base	2019	2020
IT Common Matters decision impact adjustments	($241,658)	($657,224)
Impact of 50 per cent reduction for internal labour	($42,500)	($880,000)
Plus limit to Proceeding 23793 forecast		
Lifecycle management	($450,000)	($427,000)
Enterprise projects	($866,000)	($2,113,000)
Total	**($1,600,158)**	**($4,077,224)**

Source: Exhibit 25663-X0110, Calgary-AUC-2020OCT23-004.

153 Transcript, Volume 2, page 290, lines 21-25 to page 291, lines 1-14.
154 Exhibit 25663-X0093, Calgary evidence, PDF page 8, and Transcript, Volume 2, page 266, lines 7-16.
155 Transcript, Volume 2, page 265, lines 13-17 and page 266, lines 7-25 and page 267, lines 1-3.
156 Exhibit 25663-X0093, Table 6, PDF page 21, and Exhibit 25663-X0110, CALGARY-AUC-AUC-2020OCT23-004, PDF page 10.
157 Exhibit 25663-X0124, CAL-AP-2020OCT23-001-C, Attachment Computer Economic Utilities – Subsector (Computer Economics Utility Report).
158 Exhibit 25663-X0093, Calgary evidence, PDF page 16.

Table 16. Calgary reduction to forecast 2021-2023 capital project costs

2021-2023 test period	2021	2022	2023
IT Common Matters decision impact adjustments	($287,731)	($143,831)	($1,002,291)
Impact of 50% reduction for internal labour	($366,500)	($275,500)	($515,000)
Plus limit to 30 per cent of forecast			
Lifecycle management	($695,800)	($260,400)	($256,200)
Enterprise projects	($1,120,000)	($889,700)	($390,600)
Total	**($2,470,031)**	**($1,569,431)**	**($2,164,091)**

Source: Exhibit 25663-X0110, Calgary-AUC-2020OCT23-004.

163. Calgary also recommended:

- a reduction of $500,000 annually for ATCO Pipelines' 2021-2023 IT O&M; and
- that ATCO Pipelines be directed to develop a long-range plan to move its IT spending toward the median spend metric and file the plan in its next GRA.

164. The CCA agreed with Calgary that ATCO Pipelines' IT spend is excessive and reductions are required.[159]

165. ATCO Pipelines disputed Calgary's assertion that the IT business cases for the capital projects included in the application are deficient stating that those business cases address the need, scope, level and timing of each project and include a comparison of the seven-year net present value (NPV) cost of the project and each alternative.[160]

166. It further asserted that nowhere in the IT Common Matters decision did the Commission direct ATCO Pipelines to only use Wipro for IT services nor that it must apply the IT Common Matters reductions to all IT services irrespective of the service provider. ATCO Pipelines maintained that it competitively sourced IT projects, including Cloud services, by using a tender/bid process and chose the vendor that best serves the needs of ATCO Pipelines.[161]

167. ATCO Pipelines also argued that Calgary has made incorrect assumptions about the project descriptions for both the Lifecycle Management and Enterprise project initiatives. The breakdown provided in AP-AUC-2020JUL28-037(f) identifies high-level categories with totals for each separate and distinct project estimate under each category. The descriptions provided for IT/Cyber, Human Resources, Accounting/Finance, Corporate Communications and Digital are not single projects.[162]

168. ATCO Pipelines also raised significant concerns with Calgary's recommended reduction to IT costs based on benchmarks and metrics, namely:[163]

159 Exhibit 25663-X0110, Exhibit 25663-X0110, CALGARY-AUC-2020OCT23-004, PDF pages 12 and 14.
160 Exhibit 25663-X0125, AP rebuttal evidence, PDF page 43.
161 Exhibit 25663-X0125, AP rebuttal evidence, PDF page 43.
162 Exhibit 25663-X0125, AP rebuttal evidence, PDF page 45.
163 Transcript, Volume 1, page 112, lines 3-18.

(i) Comparators referenced in those generic materials are an overly broad representation of several industries and industry subsectors.

(ii) Comparators selected are based on companies with revenues ranging from $100 million to $126 billion.

(iii) Comparators comprise 15 companies globally. Given the broad industries and industry subsectors that the benchmark represents, this likely results in very few gas transmission utilities comparable to ATCO Pipelines being represented.

(iv) The Computer Economics Utility Report specifically cautions users to not utilize the results in the report in the manner Calgary does.

169. Based on the above, ATCO Pipelines argued that Calgary's recommended disallowances to rate base, IT capital projects and O&M should be denied.

170. In response to an IR,[164] ATCO Pipelines explained that the 2019 IT assets net book value inadvertently included CWIP related to all intangible assets for all entities and not just IT CWIP as per the allocator for shared services. It stated that the revenue requirement impact will be approximately $150,000 per year and will be updated in the compliance filing to the GRA decision.[165]

Commission findings

171. ATCO Pipelines' materiality threshold is set at the greater of three per cent and $250,000. As noted in Table 14, ATCO Pipelines IT O&M costs forecast for 2021-2023 increased by less than $200,000 compared to 2019 actuals. Based on the evidence filed in this proceeding and finding no circumstances warranting a departure from the materiality threshold set for ATCO Pipelines and the approach articulated in Bulletin 2020-25, ATCO Pipelines' applied-for IT O&M costs are approved, as filed.

172. ATCO Pipelines' applied-for additions to opening 2021 rate base related to IT capital projects[166] and its applied for forecast IT direct and indirect capital expenditures are also approved, as filed.

173. The Commission is not persuaded that disallowances or reductions are warranted based on the asserted deficiencies in the business cases filed in support of the capital projects included in the application, including those related to Cloud services. In the IT Common Matters decision, the Commission considered whether to approve the prices contained in the IT master service agreements between the ATCO Utilities[167] and Wipro for inclusion in each of the regulated utilities' revenue requirements. No determinations were made on new services and no restrictions were imposed against IT services provided other than by Wipro; nor were there any directions to apply the IT Common Matters reductions to all IT services irrespective of the service provider. The Commission is satisfied that, while not fully compliant with all of the Commission's expectations for business cases (as enumerated in Decision 3577-D01-2016), the

164 Exhibit 25663-X0087, AP-CAL-2020SEP10-002(a), PDF page 9.
165 Exhibit 25663-X0125 AP rebuttal evidence, PDF page 37.
166 Exhibit 25663-X0050, AP-CAL-2020JUL28-009(b).
167 ATCO Electric Transmission and ATCO Electric Distribution, divisions of ATCO Electric Ltd.; ATCO Gas and ATCO Pipelines, divisions of ATCO Gas and Pipelines Ltd.

business cases filed in support of the capital projects included in the application, including those related to Cloud services, provide sufficient support for the projects and their associated costs.

174. Calgary has also failed to satisfy the Commission that there are projects among the IT expenditures grouped into Enhancements, Lifecycle Management, or Enterprise, for which business cases were required; that is, which meet the $500,000 business case threshold or are of an interrelated nature warranting a single combined business case.

175. Likewise, the evidence is insufficient to support Calgary's recommended reductions on the basis that ATCO Pipelines' internal labour costs are inconsistent with industry norms and its overall IT spend is excessive. No specifics were provided regarding the asserted "industry norms," and while the Computer Economics Utility Report offers support for the direction discussed below, it cannot, for the reasons that follow, be relied on to support any disallowance.

176. Benchmarking of IT services and comparator metrics may offer reasonability checks on IT spending, but they are secondary to IT business cases and other information offered in support of IT expenditures. As noted, the Commission is satisfied with the specific business cases filed in support of the capital projects included in this proceeding.

177. The evidentiary weight of any benchmark is dependent on many factors about which the Commission has limited evidence in this proceeding including the number, selection and suitability of comparators, the underlying comparator information and the benchmarking process. The value of a benchmark is also influenced by any benchmark disclaimers.

178. The Computer Economics Utility Report cited by Calgary, specifically cautioned using the IT results in the report:[168]

> The data presented in this study must be considered in context. No two organizations are exactly alike, and there is no such thing as an "average company." The statistics presented in this study must be looked at as a snapshot of a dynamic and complex set of interactions within organizations that use information systems …
>
> …
>
> … common sense should prevail when utilizing the statistics in this study. There are many factors that affect IT spending and staffing within an organization. One organization may conduct business with extensive support from IT, while a similar organization may have little automation. The latter will spend less on IT than the former, but that does not mean the latter is more efficient in its use of technology.

179. For the above reasons, the Commission is not persuaded that the Computer Economics Utility Report may be reasonably relied on in support of Calgary's recommended disallowances.

180. Nonetheless, the Commission shares Calgary's concern about ATCO Pipelines' overall IT spend and IT spending pattern over time. As was stated by Calgary in an IR response:

> While a proper business case and narrative justification may allow for an assessment of a particular IT project, the analysis takes place in a vacuum and without regard to the organization's overall IT spend, and trends in the IT spending pattern over time.

168 Transcript, Volume 1, page 112, lines 21-25 to page 113, lines 1-17.

> A second and overriding assessment is required for planning and reasonableness purposes to ensure the level of IT spend is appropriate across the organization at any point in time. IT metrics provide this secondary and necessary check.[169]

181. The Commission agrees with Calgary that ATCO Pipelines should develop a long-range plan for its IT spending and provide documentation supporting that ATCO Pipelines' IT spending, capital and O&M are consistent with those of relevant comparators. In addition, information should be provided on the role of corporate and shared services into the development of the IT plan and future IT spend. More specifically, for General Enterprise IT projects, that include initiatives from IT common groups or any other IT capital expenditures where the decision to deploy IT services is determined at the ATCO Group head office, ATCO Pipelines is directed to clearly explain its role and the role of the ATCO Group in the IT decision-making process and provide justification of the need for the project, particularly as relates to ATCO Pipelines. ATCO Pipelines is directed to provide its long-term IT plan and detailed IT business cases in the next GRA.

182. ATCO Pipelines should also review the guidance provided by the Commission in Decision 3577-D01-2016 as to the level of detail and information required to be filed in business cases, especially with regard to quantifying benefits, a cost-benefit analysis, competitive procurement information to support vendor selection decisions, economic analysis and the use of CPV cost of service.[170] Having been reminded of this guidance, failure to provide such information in future business cases may result in disallowances.

5.8 Property taxes

183. ATCO Pipeline forecast property taxes of $14.927 million in 2021, $15.374 million in 2022, and $19.664 million in 2023.

184. The UCA noted ATCO Pipelines' forecast for property taxes represents an increase in 2020 of six per cent over 2019 actuals and an increase of three per cent per year for 2021 through 2023. In evidence, the UCA provided the following table to demonstrate ATCO Pipelines' overforecasting history for property tax:

Table 17. Property tax actual versus approved

	2015	2016	2017	2018	2019
Approved	$12,518,000	$13,352,000	$15,140,000	$15,566,000	$14,577,000
Actual	$11,910,000	$12,623,000	$12,905,000	$13,132,000	$13,667,000
Difference	$608,000	$729,000	$2,235,000	$2,434,000	$910,000
Per cent difference from approved	4.9%	5.5%	14.8%	15.6%	6.2%

Source: 2015 and 2016 approved taken from Proceeding 21515, Exhibit 21515-X0002, Table 4.3-1. Remaining figures taken from Exhibit 25663-X0095, UCA evidence, Table 2-10, PDF page 31.

185. The UCA argued that ATCO Pipelines should be directed to establish a deferral account to track variations between actual and forecast property tax costs beginning with the 2021 test year as the criteria for a deferral account discussed by the Commission in Decision 2003-100 are met.[171] Further, and irrespective of whether the Commission concludes that property taxes should be subject to deferral account treatment, the UCA argued that ATCO Pipelines should be

[169] Exhibit 25663-X0110, CALGARY-AUC-2020OCT23-002(b), PDF page 4.
[170] Decision 3577-D01-2016, paragraphs 86-95.
[171] Exhibit 25663-X0089, AP-UCA-2020SEP10-005(e).

directed to reduce the estimated and forecast increases by half for each of 2020, 2021, 2022 and 2023 because of ATCO Pipelines' record of forecasting inaccuracies.

186. ATCO Pipelines argued that property taxes do not meet the Commission's criteria for deferral accounts articulated in Decision 2003-100.

187. ATCO Pipelines further argued that the UCA's recommendation to reduce ATCO Pipelines' forecast by half for historic overforecasting also suggests a form of retroactive ratemaking. It is regulated using a prospective cost-of-service model, and therefore should not be subjected to forecast reductions as a result of historical variances between Commission-approved forecast and actual.

Commission findings

188. The Commission finds that the criteria discussed in Decision 2003-100 and Decision 2010-189 are met and that a deferral account for property taxes is warranted.

189. Beginning with the criteria discussed in Decision 2003-100, the evidence summarized in Table 17 demonstrates that the variance between forecast and actual property taxes over the 2015-2019 period resulted in a material amount of $7 million. These historical variances raise a reasonable concern about ATCO Pipelines' ability to forecast these costs. The Commission accepts that property tax rate changes are determined by local tax authorities, these changes can materially impact ATCO Pipelines' forecast and are beyond ATCO Pipelines' control. ATCO Pipelines is also at risk for forecast amounts.

190. In Decision 2010-189,[172] the Commission discussed a fifth criterion, the "symmetry factor":

> 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 removed]

191. The variances between ATCO Pipelines' forecast and actual property taxes over the 2015-2019 period resulted in an asymmetrical benefit to shareholders. The Commission considers that deferral account treatment will symmetrically protect both customers and ATCO Pipelines from factors outside the control of the utility regarding property taxes.

192. In view of the foregoing, the Commission directs ATCO Pipelines to establish a deferral account for forecast property tax expenses over the test period.

193. To adjust for historical property tax forecasting inaccuracies, ATCO Pipelines is also directed to reduce its property tax forecast for the 2021-2023 test years by 10 per cent, which is

[172] Decision 2010-189, page 17.

approximately the midpoint of the range by which property taxes have been overforecasted from 2015-2019. ATCO Pipelines has alleged that it should not be subjected to forecast reductions as a result of variance between previously approved forecasts and actuals. Historical averages used to derive a forecast do not result in retroactive ratemaking; rather they are used to help project the costs that will be required in the test period. The amounts to be recovered in 2021-2023 were forecast by ATCO Pipelines based on its historical trend, and the Commission is able to set the amounts to be recovered on a forecast basis, using either approved or actual historical information that informs the 2021-2023 test period. This exercise does not result in retroactive ratemaking because the Commission is not adjusting approved costs from past test periods or trying to recover previous over-recoveries.

5.9 Common issues for Proceeding 25663 and Proceeding 24964[173]

194. In proceedings 25663 and 24964, similar issues were raised and similar evidence was filed concerning ATCO Park - head office rent and the shared services initiative.

195. The submission of similar evidence on the shared services initiative was directed by the Commission in Decision 23793-D01-2019:

> 318. The Commission directs ATCO Pipelines to coordinate with ATCO Electric Transmission [ATCO Electric] to ensure that both utilities provide the same or substantially similar information in the same format in support of the shared services in their next respective GRA/GTA, preferably filing common documents wherever possible.

196. In Decision 22742-D01-2019 for ATCO Electric, the Commission reiterated the above-cited direction and went on to enumerate the information required:

> 540. … The information should include evidence supporting the functions created, justifying total FTEs [full-time equivalents] and costs before allocation to the participating ATCO companies (AET [ATCO Electric Transmission] and all other regulated and non-regulated ATCO entities), and include any analysis, studies and calculations that explain and support the reasonableness and accuracy of the allocation methodologies. The Commission finds that it would also be beneficial to show all calculations that demonstrate the split between O&M and capital under the shared services initiative in the next GRA and GTA. This common information will allow for a proper testing of the shared services and for the provision of company specific information to support shared services costs included in the proposed revenue requirements. Accordingly, the Commission directs AET to provide the evidence, analyses, studies and calculations noted above as well as any underlying assumptions for the split between O&M and capital in its next GTA.

197. Given the commonality of the issues and evidence on ATCO Park - head office rent and ATCO's shared services in proceedings 25663 and 24964, and in the interests of efficiency and consistency, the assigned hearing panels have reviewed the records of both proceedings and have collectively made findings on these matters. The findings set out below are consistent with those issued concurrently in Proceeding 24964 but not all directions apply to both utilities. Records referred to in the findings from each of the proceedings are footnoted.

[173] Proceeding 24964, ATCO Electric Transmission 2020-2022 General Tariff Application.

5.9.1 ATCO Park – head office rent

198. Head office costs are related to functions such as corporate governance, and financial and administrative services that cannot be directly charged to subsidiaries. Head office costs are included in corporate administration and general expenses; and in these proceedings, relate to costs associated with leased space at ATCO Park, a corporate head office building in southwest Calgary. The lease for ATCO Park, effective August 1, 2017, is between ATCO Investments Ltd. as landlord, and ATCO Ltd. (the parent of ATCO Pipelines and ATCO Electric) and is for a 10-year term.

199. The applied-for square footage, lease and operating rates for ATCO Park to be included in head office rent costs allocated to ATCO Pipelines and ATCO Electric's revenue requirements for their respective test periods are detailed in the following tables:

Table 18. ATCO Park – head office rent allocation (ATCO Pipelines)

Test year	Sq. ft. [square foot]	Lease rate ($/sq. ft.)	Operating rate ($/sq. ft.)	Total ($000)	ATCO Pipelines % allocator	ATCO Pipelines allocation ($000)
2021	122,049	35.00	19.20	6,615	9.1	602
2022	122,049	36.00	19.78	6,808	9.1	620
2023	122,049	37.00	19.90	6,944	9.1	632

Source: Exhibit 25663-X0086, AP-AUC-2020SEP10-011, PDF page 25.

Table 19. ATCO Park – head office rent allocation (ATCO Electric)

Test year	Sq. ft.	Lease rate ($/sq. ft.)	Operating rate ($/sq. ft.)	Total ($000)	ATCO Electric % allocator	ATCO Electric allocation ($000)
2020	122,049	33.00	18.64	6,303	19.8	1,248
2021	122,049	33.00	19.20	6,371	19.8	1,261
2022	122,049	33.00	19.78	6,442	19.8	1,275

Source: Proceeding 24964, Exhibit 24964-X0614, AET argument, paragraphs 436-441; Exhibit 24964-X0002.03, GTA Schedule 25-8, AET general allocator. The Commission notes that the lease rates provided by ATCO Electric in Exhibit 24964-X0535 PDF page 32 varied from those shown in Exhibit 24964-X0614, paragraph 436.

Lease and operating rates

200. In support of the applied-for lease rates, ATCO Pipelines and ATCO Electric provided a report prepared by Altus Group in which it recommended lease rates of $29.00 to $31.00 per square foot at August 2017 and $28 to $30 per square foot at January 2020, on an "as is" basis, for ATCO Park.[174]

201. ATCO Pipelines stated that the Altus Group report filed on the record of proceedings 24964 and 25663 is still reflective of market conditions, and noted that in Decision 22742-D01-2019,[175] the Commission found that the time for assessing the fair market value (FMV) of ATCO Park's head office rent was August 1, 2017.[176]

174 Exhibit 25663-X0036.01, AP-AUC-2020JUL28-050(d)(iii), Attachment 1, PDF page 227.
175 Decision 22742-D01-2019: ATCO Electric Ltd., 2018-2019 Transmission General Tariff Application, Proceeding 22742, July 4, 2019.
176 Decision 22742-D01-2019, paragraph 666.

202. The CCA submitted that the applied-for lease rates for ATCO Park are materially above current market rates and argued for a reduction to $12 per square foot, which is the lease rate ATCO renegotiated, in 2019, for the ATCO Centre building in downtown Calgary.[177]

203. In support of the applied-for operating rates, ATCO Electric filed a report prepared by Jones Lang LaSalle (JLL) showing average operating costs in 2020 for Class A buildings in southwest Calgary of $17.73 per square foot. The report also identified average operating costs for Class A office buildings in the Beltline area of $17.64 per square foot.[178]

204. The CCA stated that ATCO Electric's applied-for operating rates are excessive and unreasonable. It argued that the JLL report should be afforded no weight by the Commission because ATCO Electric's key assumption is that the move to the ATCO Park building was just and reasonable. This is a conclusion that the Commission did not reach in Decision 22742-D01-2019. The CCA recommended that operating rates per square foot of $14.34 for 2020, $14.77 for 2021 and $15.21 for 2022, consistent with those of ATCO Centre Calgary, should be approved.[179]

Commission findings

205. Both ATCO Pipelines and ATCO Electric advanced arguments and evidence on the FMV for the ATCO Park lease rate as at August 1, 2017, in support of the proposed rates over their respective test periods. ATCO Electric further argued that the correct determination of the FMV for the ATCO Park lease rate as at August 1, 2017, is important because it is the baseline for the escalation factor of $1 per square foot every third year that, in its view, the Commission approved in Decision 24805-D02-2020, the compliance filing to ATCO Electric's 2018-2019 GTA.[180]

206. The Commission disagrees with ATCO Electric's description of the Commission's findings in Decision 24805-D02-2020 and the asserted significance of the FMV for the ATCO Park lease rate as at August 1, 2017.

207. In Decision 24805-D02-2020, the Commission notionally accepted the concept but denied the application of the proposed rent escalator because the first escalation would occur outside the forecast test years under consideration in that proceeding.[181] The Commission's comments on a rent escalator in that decision do not fetter the Commission's assessment of the reasonableness of the ATCO Park lease rate costs in the forecast test years under consideration in the current proceedings.

208. Further, the FMV lease rate for ATCO Park as of August 1, 2017, is not determinative of whether the applied-for ATCO Park lease rate for ATCO Electric and ATCO Pipelines is reasonable for the current test periods.

209. In Decision 22742-D01-2019, the Commission found that the effective date of the lease, August 1, 2017, was the appropriate time for determining the FMV lease rate for ATCO Park to

[177] Exhibit 25663-X0092, CCA evidence, paragraphs 42-45.
[178] Proceeding 24964, Exhibit 24964-X0543.
[179] Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraphs 191-194.
[180] Proceeding 24964, Exhibit 24964-X0621, paragraphs 339-340.
[181] Decision 24805-D02-2020, paragraphs 203-204.

set the just and reasonable rates for the 2018-2019 GTA period for ATCO Electric; and, on the evidence, that $20 per square foot for both test years was reasonable.[182] In that decision the Commission limited its determination of reasonable ATCO Park lease rates to the test period in question and based its decision on the evidence relevant to that test period.

210. As there is no formal lease or sublease for ATCO Electric or ATCO Pipelines, the Commission considers that these utilities retain discretion to negotiate their rental rates. It is consequently reasonable to use the year in which each GRA and GTA was filed, or if that information is not available, the year prior to filing an application, as the starting basis for determining the reasonableness of the applied-for lease rates for the test periods under consideration.

211. The Commission has therefore considered evidence of lease rates filed in proceedings 25663 and 24964 addressing, among others, the impact of COVID-19 and the accompanying economic downturn on lease rates over the current test periods.

212. The only evidence filed by ATCO Pipelines and ATCO Electric to support an increase in the head office lease rate from $20 per square foot for ATCO Park was the Altus Group report. That report described ATCO Park as a "high end," "build-to-suit turnkey" suburban office building with a "Class AA quality," where lease rates "at the high end of the comparable suburban leases" are expected to be charged.[183] The Commission does not consider it reasonable to include the higher lease rates associated with high-end buildings in customer rates when lower priced office space can provide the same service to customers.

213. Altus Group also stated in its report that there are limited comparable buildings to ATCO Park as a Class AA building in a suburban area and, as a result it provided Class A lease rates for comparable buildings in both downtown ($24 to $40 per square foot) and suburban ($24 to $28 per square foot) locations. The suburban lease rate range and the lower end of the downtown lease rate range for comparable buildings are materially lower than the applied-for lease rates at ATCO Park. This evidence supports that the applied-for lease rates at ATCO Park for the current test periods are excessive.

214. The Commission also notes that the Altus Group report and the ATCO Centre renegotiated lease rates are based upon data from 2020 and prior periods. Economic conditions have deteriorated since then and were exacerbated by the COVID-19 pandemic and increasing office building vacancy rate forecasts.[184] The changed economic circumstances since the Altus Group report was prepared reduce the weight that the Commission has placed on the report.

215. For the above reasons, the Commission finds that the applied-for increase in head office lease rates has not been reasonably supported.

216. The Commission is also not persuaded by the CCA's evidence that a decrease to $12 per square foot, which is solely based on the lease rate value renegotiated for ATCO Centre, where head office employees were previously located, is justified.

182 Decision 22742-D01-2019, paragraphs 666-668.
183 Exhibit 25663-X0036.01, PDF page 235.
184 Exhibit 25663-X0103, CCA-AUC-2020OCT23-002, PDF pages 6-8.

217. In the absence of convincing evidence supporting a change, the Commission finds that a continuation of the currently approved lease rate of $20 per square foot is reasonable, for each of 2020, 2021 and 2022 for ATCO Electric, and for each of 2021, 2022 and 2023 for ATCO Pipelines.

218. ATCO Pipelines requested that the Commission approve an escalator of one dollar per year within the test period. ATCO Electric did not request an escalator. The Commission denies ATCO Pipelines' request for an escalator as the current lease rate best reflects the ongoing impacts of the COVID-19 pandemic and accompanying economic downturn. In this regard, the Commission accepts the CCA's evidence that "as more employees work from home it is expected that office lease rates will, at best, stay stable, if not weaken further."[185]

219. With respect to operating rates, the Commission approves a continuation of the previously approved $0.50 per square foot escalator per year. For the reasons discussed above, the Commission is not persuaded by the evidence filed on the records of proceedings 25663 and 24964 that any other change to operating rates is warranted at this time. Accordingly, operating rates per square foot of $17 for 2020 for ATCO Electric, $17.50 for 2021 and $18 for 2022 for both ATCO Electric and ATCO Pipelines, and $18.50 for 2023 for ATCO Pipelines are approved. In making this determination, the Commission considers that these amounts are similar to the average operating rates provided in the JLL report for similar office buildings.

220. ATCO Pipelines and ATCO Electric are directed to revise their lease and operating rates according to the Commission's findings in this section of the decision, in their respective compliance filings.

Square footage

221. ATCO Pipelines' and ATCO Electric's applied-for head office square footage at ATCO Park is 122,049 square feet, which is a deviation from the 155,000 square feet ATCO Electric applied for in Proceeding 25282.[186] The total square footage of ATCO Park is 248,743 and the applied-for head office square footage is the amount ATCO Pipelines and ATCO Electric assert is properly allocated to head office.

222. In response to an IR, ATCO Pipelines explained that the departure from the previously asserted 155,000 square feet is due to the final Building Owners and Managers Association (BOMA) measurements of the building upon its completion, as well as to changes in head office subleased space.[187]

223. ATCO Electric submitted that the allocation formula approved by the Stage 2 review panel in Decision 25282-D01-2020[188] to revise the head office square footage allocated to ATCO Electric and adjust for excess employee capacity at ATCO Park,[189] creates a reasonable proxy for

185 Proceeding 24964, Exhibit 24964-X0436, CCA evidence, paragraph 119.
186 Proceeding 25282, Review and Variance of Decision 22742-D01-2019 Stage 2.
187 Exhibit 25663-X0086, AP-AUC-2020SEP10-011(a), PDF page 25.
188 Decision 25282-D01-2020: ATCO Electric Ltd., Stage 2 Review and Variance of Decision 22742-D01-2019, Proceeding 25282, July 28, 2020.
189 Decision 25282-D01-2020, paragraph 111.

the determination of square footage, but the requested square footage of 122,049 should be approved as this figure is more precise.[190]

224. In the CCA's view, the square footage per employee should be reduced because evidence does not support that the applied-for square footage is required for ATCO Electric to provide safe and reliable service.[191]

Commission findings

225. In these proceedings, the evidence offered by the utilities differed from that offered previously on the square footage allocated to head office and there was considerable uncertainty, as there has been in multiple prior proceedings, regarding other important inputs and relevant matters, including the total number of employees located at ATCO Park, the proper allocation of common space square footage among the ATCO companies residing in ATCO Park, whether the square footage per employee is consistent with office space in the market and whether the capacity of ATCO Park dedicated to head office employees is comparable to the capacity similar companies require. This uncertainty remains despite repeated efforts on the part of the Commission and the CCA to elicit clear evidence on these points.

226. The Commission has considered the materiality of the revenue requirement impact of approving the applied-for head office square footage of 122,049 versus 112,238, which is the pro-rated head office square footage resulting from the formula approved in Decision 25282-D01-2020 (using 248,743 as the actual total square footage of ATCO Park)[192] versus 90,240 square feet, which is the pro-rated head office square footage resulting from the same formula using 200,000 as a proxy for the total square footage of ATCO Park.[193] The difference is minimal. In light of that, the Commission approves the head office square footage of 122,049 applied for in the current proceedings. The Commission has concluded that it is neither in the public interest nor consistent with regulatory efficiency to continue to examine head office square footage in every GTA and GRA when the impact to revenue requirement is potentially immaterial.

227. The Commission advises ATCO Electric and ATCO Pipelines that any proposals to increase the approved square footage amount in future GTAs and GRAs must include the following information, at a minimum: updated floor plans for ATCO Park (clearly showing the square footage allocated to each regulated and unregulated ATCO entity), employee headcount and capacity, and explanations for the usage and necessity of common space.

5.9.2 Shared services initiative

228. The shared services initiative was before the Commission in Proceeding 23793 and was introduced in Proceeding 22742, ATCO Electric's 2018-2019 GTA, although approval of shared services costs was not sought in that proceeding. In those proceedings, ATCO Pipelines and ATCO Electric each proposed to implement a shared services initiative pursuant to which they

190 Proceeding 24964, Exhibit 24964-X0535, AET rebuttal evidence, PDF page 38.
191 Proceeding 24964, Exhibit 24964-X0436, CCA evidence, paragraph 163.
192 Decision 25282-D01-2020, paragraph 77.
193 Decision 25282-D01-2020, paragraph 111.

and several other ATCO group entities[194] identified common shared services functions that provide standardized internal services to all of the ATCO group of entities on a cost recovery basis.[195] Those newly formed shared services functions consist of groups, or a subset of groups, previously embedded in each of the regulated or non-regulated entities within the ATCO group of companies. To allocate shared services costs between the various ATCO group entities, an allocation methodology was proposed by the management team within each shared services functional group.[196] These methods include direct charging, using causal allocation factors, or using a general cost allocation formula.[197]

229. In Decision 23793-D01-2019, the Commission approved ATCO Pipelines' shared services costs as filed, and approved the cost allocations as well as the supporting methodologies on an interim basis only, pending a more thorough review of the shared services initiative and the associated allocation methodologies. The Commission directed ATCO Pipelines to coordinate with ATCO Electric to ensure that both utilities filed the same or substantially similar information in the same format in support of the shared services in their next respective GRA/GTA, preferably filing common documents wherever possible. The Commission indicated that the information provided should include evidence supporting the functions created, justifying total FTEs and costs before allocation to the participating ATCO companies, and supporting the reasonableness and accuracy of the allocation methodologies. Those matters are addressed in the following subsections.

5.9.3 Shared services functions and allocators

230. Under the proposed shared services initiative, 14 functional groups are transitioned to the shared services model.[198] Among those 14, the innovation and indigenous, government relations and sustainability (IGRS) groups were identified as discreet functional groups for the first time in proceedings 25663 and 24964. The utilities and the interveners asserted opposing positions on whether the innovation, government relations and sustainability functions will provide any value to the utilities and their customers.

231. The allocation methodology proposed[199] by ATCO Pipelines and ATCO Electric for each of the 14 functional groups is set out in Table 20:

Table 20. Allocation methodologies for shared services functional groups

Functions	Allocation method
Supply Chain	General cost allocator (GCA)[200]
Financial Services – Regulated Accounting, Fixed Assets & Project Accounting	GCA (utilities only)
Financial Services - Other General Accounting Support	GCA

[194] Where ATCO group of entities, ATCO group entities or ATCO group entity is used, and is not intended to refer specifically to ATCO Pipelines and ATCO Electric, who are the applicants in proceedings 25663 and 24964, respectively.
[195] Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 494.
[196] Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 522, and Exhibit 25663-X0004, PDF page 22.
[197] Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 510, and Exhibit 25663-X0004, PDF page 16.
[198] Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 493, and Exhibit 25663-X0004, PDF page 1.
[199] Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF pages 493-510, and Exhibit 25663-X0004, PDF pages 1-16.
[200] The GCA allocator is based on an equal weighting of net revenues, total assets and labour expenses.

Functions	Allocation method
Financial Services - General Accounting	GCA
Financial Services – Accounts Payable	Number of invoices
Financial Services - Other Fixed Asset and Project Accounting Support	GCA
Human Resources (HR)	Headcount
Regulatory	GCA (utilities only)
Project Management	GCA
Facilities Management	Space square footage
Fleet Services	Number of vehicles
IT Services	50 per cent operating costs & 50 per cent net book value of IT assets
Innovation	GCA
IGRS	GCA

Source: Exhibit 25663-X0004.

232. ATCO Pipelines and ATCO Electric each filed a third-party report from KPMG in support of the proposed allocation methodologies. That report reviewed and compared the allocation methodologies proposed in these proceedings against the National Association of Regulatory Utility Commissioners (NARUC) guidelines for cost allocation and affiliate transactions; and the allocation methodologies employed by other Canadian utilities. KPMG's report concluded that the proposed allocators are appropriate for each of the shared services functional groups.[201]

233. More specifically, the KPMG report concluded that the GCA (the proposed allocator for a majority of the shared services functional groups) is an appropriate allocator for those groups, because it takes into account the size and complexity of the various ATCO group entities, and is a good general indicator of the degree to which different entities are likely to benefit from a shared service. KPMG explained that the GCA is a composite metric that is based on an equal weighting of three components: net revenues, total assets, and labour expenses,[202] and is particularly suitable when services performed by a functional group are not closely linked to, or driven by, the level of activity in the various group entities (i.e., when a specific cost causation driver is difficult to identify). In response to Commission IRs in Proceeding 24964, ATCO Electric stated that it chose to use the GCA based on guidance from previous proceedings, noting that the GCA was approved in Decision 2013-111[203] as an allocator for corporate costs.[204]

234. In Proceeding 24964, the CCA argued that the GCA is not an effective allocator because a shared services functional group will not necessarily provide more services to an ATCO group entity that has more assets, higher revenues and higher labour expenses.[205]

[201] Exhibit 25663-X0004, PDF pages 17-41.
[202] Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 525, and Exhibit 25663-X0004, PDF page 25.
[203] Decision 2013-111: The ATCO Utilities Corporate Costs, Proceeding 1920, March 21, 2013.
[204] Proceeding 24964, Exhibit 24964-X0252.02, AET Information Responses to AUC, IR responses AET-AUC-2019DEC16-020(a) and AET-AUC-2019DEC16-026(a)-(d).
[205] Proceeding 24964, Exhibit 24964-X0436, CCA evidence Part 1 - D. Madsen, A. Chau, paragraph 538, PDF page 216.

235. Further, relying on shared services cost trends provided by ATCO Electric in Proceeding 24964,[206] the CCA pointed out that in the 2020-2022 GTA test period, regulated entities are being allocated a larger portion of the costs relative to unregulated entities,[207] and that costs are increasing for regulated entities despite an overall reduction in work.[208] On that basis, the CCA argued that the GCA is not producing a just and reasonable allocation of costs.

236. For each functional group that uses the GCA, the CCA recommended an allocator that equally splits the shared services costs among each participating ATCO group entity. While the CCA acknowledged that an equal allocation of costs may not necessarily create a more accurate allocation than the GCA,[209] the CCA submitted that an equal split gives more certainty that regulated entities are not subsidizing non-regulated entities.[210] The CCA also recommended that other alternative allocators to the GCA be reviewed as part of ATCO Electric's next GTA, including potential causal allocators, refined formulas or a detailed future study analyzing the actual workload of the shared services staff.[211]

Commission findings

237. The CCA took issue with the innovation function and aspects of the IGRS function, asserting that it is unclear how the government relations, sustainability and innovation groups benefited ATCO Pipelines, ATCO Electric and their customers. Subject to reservations expressed below about the sustainability group and certain services provided by the government relations group within the IGRS function, the Commission is satisfied that there is sufficient justification for these and the other identified functional groups. The Commission recognizes the importance of the indigenous relations component of this function, such as increasing focus and awareness, educational programs and training, as well as maintaining positive and collaborative relationships with indigenous communities. The Commission also recognizes the government relations' group efforts in providing support and guidance to ATCO Pipelines and ATCO Electric on strategic government initiatives and plans, and it considers innovation to be a legitimate activity for regulated utilities.

238. The Commission is also satisfied that the causal allocators proposed for the accounts payable, human resources, facilities management, fleet services and IT services functional groups are appropriate, based on the evidence filed on the records of both proceedings 24964 and 25663. The Commission considers that the services provided by each of those functional groups are reasonably linked to, or driven by, their respective proposed allocators. Further, the KPMG report supports that the proposed allocators are generally consistent with those used by comparator utilities. Accordingly, the Commission approves the proposed shared services allocators for these five functional groups (as shown above in Table 20) for the 2020-2022 GTA period and the 2021-2023 GRA period.

239. For the nine shared services functional groups identified in Table 20 for which the GCA allocation methodology was proposed, the Commission accepts the GCA as a more appropriate

206 Proceeding 24964, Exhibit 24964-X0573.03, AET Information Responses to CCA, IR response AET-CCA-2020OCT09-047(a) and (b).
207 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraphs 679-687 and 693, PDF pages 216-219 and 221.
208 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraph 689, PDF page 220.
209 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraphs 694 and 702, PDF pages 221 and 224.
210 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraph 703, PDF page 224.
211 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraphs 695 and 703, PDF pages 221 and 224.

allocator than the equal allocation methodology proposed by the CCA. The Commission generally agrees that these nine groups provide services that have a broad application across all ATCO group entities, that a causal driver for these functions is difficult to identify, and that a general allocation formula is likely necessary to allocate costs in such circumstances. Furthermore, the Commission generally agrees that larger and more complex entities are likely to benefit more from the shared services initiative, which is accounted for to some extent in the GCA. In contrast, an equal allocation of costs to all participating ATCO group entities, as proposed by the CCA, does not account for such differences in size or complexity and, as a result, may unreasonably bias costs to certain regulated or unregulated ATCO group entities.

240. While the Commission finds that the GCA is the most appropriate allocation methodology that has been proposed by either party on the records of proceedings 24964 and 25663 (for the nine functional groups shown above in Table 20), and approves the use of the GCA for the 2020-2022 GTA period and the 2021-2023 GRA period, the evidence presented by both ATCO Electric and ATCO Pipelines, in support of the GCA, has limitations.

241. More specifically, the Commission is concerned that the three GCA variables (net revenues, total assets and total labour expenses) are not directly linked to the services that each of the nine functional groups provide to each ATCO group entity and, given that the shared services initiative is new, there is limited evidence on which to assess whether the GCA, as a general allocator, can produce an accurate or a close to accurate allocation of the shared services costs for those nine functional groups.

242. Further, the Commission considers that the comparative evidence of other alternative allocators to the GCA is lacking. While the KPMG report compared the GCA against allocation methodologies employed by other Canadian utilities and concluded that the GCA is appropriate and reasonable, no assessment was offered as to whether the GCA is superior to the allocators that are commonly used at other Canadian utilities.

243. The Commission also shares the CCA's concern that insufficient evidence has been produced to demonstrate the reasonability of the allocation between regulated and non-regulated entities, and observes that there is some evidence that regulated entities are receiving increasingly higher costs than unregulated entities.

244. In view of the above, there is a need for further testing to confirm the reasonableness and accuracy of the GCA allocation methodology, and to ensure the reasonableness of the associated GCA allocations as between regulated and non-regulated entities. The Commission therefore directs each of ATCO Pipelines and ATCO Electric to conduct an analysis that examines direct charging (or some reasonable and defensible proxy of effort or time) for the supply chain and financial services (excluding accounts payable) functional groups and to produce a cost allocation for each ATCO group entity, for both functional groups (including each financial services subfunction). ATCO Pipelines and ATCO Electric are directed to track and record the information associated with this analysis from January 1, 2022 to December 31, 2022, inclusive. If ATCO Pipelines and ATCO Electric choose to use a time estimate or level-of-effort estimate, rather than direct charging to comply with this direction, they must explain the methodology used to produce those estimates and be prepared to file evidence on the reasonability of the chosen estimate. ATCO Electric and ATCO Pipelines are directed to file this information in their next GTA and GRA, respectively, following the completion of the requested analysis.

245. Four other issues arise with respect to the allocation of shared services.

246. The first relates to the use of 2019 actual variables as inputs into the shared services allocation formulas. The Commission finds that the use of 2019 actual variables will maintain consistency between Proceeding 24964 and Proceeding 25663. In its compliance filing, ATCO Electric is therefore directed to use 2019 actual variables in place of 2018 actual variables as inputs into the shared services allocation formulas, and to adjust its shared services allocations accordingly.

247. The second issue concerns the clarification of the weighting between IT annual operating costs and IT asset net book value used in the IT services allocator (Table 20 above). In AET-AUC-2019DEC16-033,[212] the Commission asked ATCO Electric to confirm that its calculations for the IT services allocator is based on an equal (50 per cent) weighting of IT annual operating costs and IT asset net book value. In the Commission's view, the calculation provided in ATCO Electric's application[213] does not demonstrate that IT annual operating costs and IT asset net book value are weighted equally (50 per cent). For comparison purposes, the Commission observes that the approach used by ATCO Electric to calculate the GCA in Exhibit 24964-X0014, Excel worksheet tab "Attachment 25.1.2 (Allocators)," which weighs net revenues, total assets and total labour costs equally (33.33 per cent), is not the same as the approach used to calculate the IT services allocator. Accordingly, in their respective compliance filings, ATCO Electric and ATCO Pipelines are directed to recalculate the IT services allocator using the same approach (i.e., the approach to weighting the variables) that was used to calculate the GCA in Exhibit 24964-X0014, Excel worksheet tab "Attachment 25.1.2 (Allocators)," and to make the necessary adjustments to the IT services cost allocations. To clarify, the Commission is not directing ATCO Electric and ATCO Pipelines to allocate IT services costs through the GCA, but to apply a 50 per cent weighting to each of IT annual operating costs and IT asset net book value.

248. The third issue deals with deferral accounts. The CCA recommended that deferral account adjustments be included within net revenues for the GCA allocator,[214] and cited the Commission's findings in Decision 22742-D01-2019[215] as justification for this recommendation. The Commission accepts the CCA's recommendation, and for similar reasons as those outlined in Decision 22742-D01-2019, directs ATCO Electric and ATCO Pipelines, in their respective compliance filings, to adjust their shared services cost allocations by including deferral account revenues in calculating net revenues for the GCA.

249. Finally, in Proceeding 24964, ATCO Electric stated that Canadian Utilities Limited sold Alberta PowerLine in 2019, and that Alberta PowerLine was consequently removed from the shared services allocation formulas to reflect this sale.[216] However, the CCA submitted evidence showing that shared services employees may, either directly or indirectly, be providing services to Alberta PowerLine.[217] The Commission directs ATCO Electric and ATCO Pipelines to

212 Proceeding 24964, Exhibit 24964-X0252.02, AET Responses to AUC IRs, IR response AET-AUC-2019DEC16-033.
213 Proceeding 24964, Exhibit 24964-X0014, Attachment 25.1.2 - Shared Services Costs Allocation, Attachment 25.1.2 (Allocators).
214 Proceeding 24964, Exhibit 24964-X0436, CCA evidence, paragraph 556.
215 Decision 22742-D01-2019, paragraphs 567-570, PDF pages 134-135.
216 Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, paragraph 514, PDF page 443.
217 Proceeding 24964, Exhibit 24964-X0436, CCA evidence Part 1 – D. Madsen, A. Chau, paragraphs 548-552, PDF pages 219-221, and Exhibit 24964-X0609, CCA argument, paragraphs 684-687 and 711-715, PDF pages 218-219 and 226-227.

confirm, in their respective compliance filings, that shared services employees are no longer providing services to Alberta PowerLine, and that no direct or indirect services will be provided to Alberta Powerline in the 2020-2022 GTA test period or the 2021-2023 GRA test period.

5.9.4 Shared services costs and FTEs

250. Under the shared services model, all shared services costs and FTEs are allocated to each ATCO group entity from an initial pool of total forecast costs and FTEs using each functional group's allocator. Total actual (pre-allocation) shared services costs and FTEs for 2018 and 2019 as well as total (pre-allocation) forecast costs and FTEs for 2020-2023 are provided in the tables below:[218]

Table 21. Total costs (pre-allocation) for shared services functional groups

Functions	2018 Actual	2019 Actual	2020F	2021F	2022F	2023F
	($million)					
Supply Chain	7.5	5.2	6.0	6.2	6.4	6.5
Financial Services	16.2	17.1	17.7	17.9	18.4	18.9
HR	6.0	5.3	6.1	6.2	6.4	6.6
Regulatory	9.0	7.6	8.7	9.0	9.2	9.5
Project Management	1.8	1.5	1.1	1.1	1.1	1.2
Facilities Management	2.9	1.9	1.7	1.8	1.9	1.9
Fleet Services	1.5	0.9	0.9	1.0	1.1	1.1
IT Services	10.0	10.5	13.2	13.5	13.9	14.2
Innovation	-	-	4.3	4.3	4.4	4.4
IGRS	-	3.2	4.7	4.8	5.0	5.1
Total	**55.0**	**53.2**	**64.3**	**65.9**	**67.8**	**69.4**

Source: For 2018 actuals to 2022 forecast: Proceeding 24964, Exhibit 24964-X0015.01, Total Costs by Functional Group, Attachment 25.1.3. For 2023 forecast: Exhibit 25663-X0005, Section 4.2.4 Attachment 3, Excel worksheet tab "2023."

Table 22. Total FTEs (pre-allocation) for shared services functional groups

Functions	2018 Actual	2019 Actual	2020F	2021F	2022F	2023F
	FTEs					
Supply Chain	32.0	32.2	37.7	37.5	37.5	37.5
Financial Services	135.0	138.2	139.8	139.3	139.3	139.3
HR	48.0	39.8	46.8	46.8	46.8	46.8
Regulatory	46.0	45.0	50.4	50.7	50.7	50.7
Project Management	7.0	8.8	8.9	8.9	8.9	8.9
Facilities Management	14.0	15.2	15.1	15.1	15.1	15.1
Fleet Services	7.0	9.6	8.7	8.7	8.7	8.7
IT Services	52.0	53.9	66.3	66.3	66.3	66.3
Innovation	-	-	6.8	6.8	6.8	6.8
IGRS	-	15.0	16.4	16.4	16.4	16.4
Total	**341.0**	**357.7**	**396.9**	**396.5**	**396.5**	**396.5**

Source: For 2018 actuals to 2022 forecast: Proceeding 24964, Exhibit 24964-X0015.01, Total Costs by Functional Group, Attachment 25.1.3. For 2023 forecast: Exhibit 25663-X0004, Section 4.2.4 Attachments 1 & 2, PDF pages 4-15.

[218] The Innovation function was created in 2020 and the IGRS function was created in 2019.

251. ATCO Pipelines requested the following shared services costs to be included in its 2021-2023 revenue requirements:

Table 23. Shared services costs included in ATCO Pipelines' revenue requirements 2021-2023

	2021	2022	2023
	($million)		
O&M	4.1	4.2	4.3
Capital	2.4	2.5	2.5

Source: Exhibit 25663-X0005.

252. ATCO Electric requested the following shared services costs to be included in its 2020-2022 revenue requirements:

Table 24. Shared services costs included in ATCO Electric's revenue requirements 2020-2022

	2020	2021	2022
	($million)		
O&M	7.8	8.0	8.2
Capital	4.6	4.8	4.9

Source: Proceeding 24964, Exhibit 24964-X0014.

253. ATCO Pipelines submitted that there are no differences between total dollar amounts for shared services in proceedings 25663 and 24964.[219]

254. The CCA argued that the total forecast FTE increases and associated costs for shared services are not adequately supported, and provided a series of FTE adjustment recommendations for each shared services function in proceedings 25663[220] and 24964.[221]

Commission findings

255. ATCO Electric and ATCO Pipelines have failed to offer sufficient support for the total forecast shared services FTE increases throughout 2020-2023.

256. In Proceeding 24964, ATCO Electric maintained that any FTE increases in the 2020-2022 GTA test period are "reflective of the vacancies that existed in 2019 and are not new growth positions being requested."[222] Beyond this general statement, ATCO Electric and ATCO Pipelines provided limited evidence to support that the forecast FTE increases over 2019 actual levels are necessary, in any of the shared services functional groups, to continue the provision of safe and reliable services to Alberta customers. There is likewise insufficient evidence to demonstrate that these FTEs were, or will be, filled throughout 2020-2023.

257. In response to a CCA IR, ATCO Electric provided the following information on cost trends for total, pre-allocated, shared services costs:

219 Proceeding 25663, Transcript, Volume 2, page 382.
220 Exhibit 25663-X0103, CCA-AUC-2020OCT23-001, PDF pages 1-5.
221 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraphs 716-721, 723, 726, 734, 737, 740-745, 750, 754 and 761, PDF pages 227-238.
222 Proceeding 24964, Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraphs 42, 45, 49, 61, 67 and 71, PDF pages 279-281, 285, 287-288.

Table 25. Shared services total cost trends (pre-allocation) with historical proxies for cost prior to the shared services initiative[223]

Total shared services	2015 Proxy	2016 Proxy	2017 Proxy	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
	($million)							
Supply Chain Management	8.2	6.4	6.0	7.6	5.7	6.0	6.2	6.4
Financial Services	18.0	18.2	17.9	16.2	16.6	17.7	17.9	18.4
Human Resources	7.5	7.4	7.9	6.0	5.5	6.1	6.2	6.4
Regulatory	9.3	7.3	8.6	9.0	8.4	8.7	9.0	9.2
Project Management Office	1.2	0.9	0.9	1.8	1.4	1.1	1.1	1.1
Fleet Services	1.7	1.6	1.7	1.5	0.8	0.9	1.0	1.1
Facilities Management	1.6	1.1	1.0	2.9	1.8	1.7	1.8	1.9
Information Technology Services	11.2	9.8	9.9	9.9	10.7	13.2	13.5	13.9
	58.7	**52.8**	**53.9**	**54.9**	**50.9**	**55.3**	**56.7**	**58.4**
Innovation	4.6	4.7	4.8	4.9	5.3	4.3	4.3	4.4
IGRS	3.4	3.5	3.5	3.6	3.7	4.7	4.8	5.0
	66.7	**61.0**	**62.2**	**63.4**	**59.9**	**64.3**	**65.9**	**67.8**

Source: Proceeding 24964, Exhibit-24964-X0573.03, AET Information Responses to CCA 001 to 049, IR response AET-CCA-2020OCT09-047(a)-(b).

258. The Commission observes from Table 25 that the shared services costs exhibit a "U-shape" trend, with costs declining in the years prior to the formation of the shared services initiative in 2018 and reaching their lowest level in 2019, before being forecast to rapidly increase throughout 2020-2022. This trend is contrary to the asserted benefits (such as economies of scale and improving efficiency through synergies) that the implementation of the shared services initiative purports to provide to all ATCO group entities.[224]

259. Additionally, ATCO Electric indicated that the proxies presented in Table 25 are high-level estimates of historical shared services costs, and that detailed information is not available because the costs for each functional group were previously embedded within each individual ATCO group entity.[225] The Commission also observes that the total (pre-allocated) shared services FTE forecasts provided by ATCO Electric in Proceeding 24964, Exhibit 24964-X0573.03,[226] are different than the forecasts provided in Exhibit 24964-X0015.01.[227] The Commission agrees with the CCA's argument[228] that it is difficult to review the shared services forecasts provided by ATCO Electric and ATCO Pipelines, given the frequent corporate reorganizations at ATCO Ltd., the inability of ATCO Pipelines and ATCO Electric to provide accurate information on historical shared services costs and FTEs, and the inconsistent FTE

223 The Innovation function was created in 2020; years prior to 2020 in Table 25 represent proxy values for the Innovation function. Similarly, the IGRS function was created in 2019; years prior to 2019 in Table 25 represent proxy values for the IGRS function.

224 Exhibit 25663-X0004, Attachments 1 and 2, PDF page 2.

225 Proceeding 24964, Exhibit 24964-X0573.03, AET Information Responses to CCA 001 to 049, IR response AET-CCA-2020OCT09-047(d).

226 Proceeding 24964, Exhibit 24964-X0573.03, AET Information Responses to CCA 001 to 049, IR response AET-CCA-2020OCT09-047(c).

227 Proceeding 24964, Exhibit 24964-X0015.01, Total Costs by Functional Group, Attachment 25.1.3.

228 Proceeding 24964, Exhibit 24964-X0609, CCA argument, paragraph 699, PDF page 223.

forecasts provided by ATCO Electric. Accordingly, the Commission finds that it cannot rely on the forecasts provided by ATCO Electric and ATCO Pipelines.

260. Except for the innovation function, the Commission directs ATCO Electric and ATCO Pipelines, in their respective compliance filings, to use 2019 actual FTEs (shown above in Table 22) as the approved total pre-allocated shared services FTE complement for all GTA and GRA test years, and to then allocate these total pre-allocated shared services FTE complements (and the associated costs) in accordance with the allocators approved above. When adjusting their respective shared services costs to reflect the Commission's direction, ATCO Electric and ATCO Pipelines are also directed, in their respective compliance filings, to use 2019 actual shared services staff compositions as found in Proceeding 24964, Exhibit 24964-X0345.01.[229]

261. As the innovation function was created in 2020, 2019 data is not available. Given this, the Commission directs ATCO Electric and ATCO Pipelines to use 2020 forecast FTEs (shown above in Table 22) as the approved total pre-allocated FTE complement for all GTA and GRA test years, and to then allocate these total innovation FTE complements (and the associated costs) in accordance with the allocators approved above.

262. With respect to the IGRS function, as previously acknowledged, the Commission recognizes the value of the indigenous relations component as well as the government relations' group efforts in providing support and guidance to ATCO Pipelines and ATCO Electric on certain strategic government initiatives and plans.

263. The Commission is nonetheless concerned with the excessive number of FTEs that are allocated to ATCO Electric and ATCO Pipelines, for services provided by the government relations and sustainability groups. After reviewing the utilities' explanations[230] supporting the inclusion of these two functions in regulated rates, the Commission finds that these functions provide limited benefits to ATCO Electric, ATCO Pipelines and their regulated customers. Government relations may consist of a variety of activities, many of which are intended to advance the direct interests of a corporation or its subsidiaries in carrying on business, for example, activities contemplated in the *Lobbyist Act*.[231] There are some government relations activities such as red tape reduction, environment and industry standards changes that relate to regulated service,[232] but other activities included within "priority and cross-functional policy discussions, and providing support for businesses as required"[233] are less obviously related to regulated service. "Building and maintaining relationships with government representatives,"[234] is less relevant to regulated activities, and provides limited benefit to ratepayers. Similarly, the activities of the sustainability group are essentially directed to enhancing shareholder interests,

229 Proceeding 24964, Exhibit 24964-X0345.01, AET-AUC-2019NOV25-012(a) REVISED April 1, 2020 Attachment 1.

230 Exhibit 25663-X0125, AP rebuttal evidence, paragraph 100 and Proceeding 24964, Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF pages 507-509, Exhibit 24964-X0252.02, AET Information Responses to AUC, IR responses AET-AUC-2019DEC16-042 and AET-AUC-2019DEC16-043 and Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraphs 83-90, PDF pages 294-296.

231 SA 2007, c. L 20.5.

232 Exhibit 25663-X0125, AP rebuttal evidence, paragraph 100 and Proceeding 24964, Exhibit 24964-X0252.02, AET-AUC-2019DEC16-042(a)-(c).

233 Proceeding 24964, Exhibit 24964-X0001.03, PDF page 508, and Exhibit 24964-X0252.02, AET-AUC-2019DEC16-042(a)-(c).

234 Proceeding 24964, Exhibit 24964-X0252.02, AET Information Responses to AUC, IR response AET-AUC-2019DEC16-042(a)-(c).

rather than ratepayers' interests. The sustainability group's activities make a company's shares more attractive to investors. The group's activities also include generating sustainability reports for Canadian Utilities and ATCO.

264. In view of the foregoing, it is unclear from the records of proceedings 24964 and 25663 how the extent of the applied-for increase in IGRS FTEs is required for ATCO Pipelines and ATCO Electric to provide safe and reliable services to Alberta ratepayers.

265. Accordingly, the Commission directs ATCO Electric and ATCO Pipelines, in their respective compliance filings, to further reduce the total pre-allocated pool of IGRS FTEs by four FTEs, resulting in 11 total pre-allocation FTEs for the IGRS function, for each GTA and GRA test year. Furthermore, in their respective compliance filings, ATCO Electric and ATCO Pipelines must identify, by using Exhibit 24964-X0345.01 from Proceeding 24964, which positions and FTEs were removed to comply with this direction (i.e., each of ATCO Electric and ATCO Pipelines must explain how they adjusted the employee composition of the IGRS functional group). Any changes to employee compositions must be coordinated between the two utilities.

266. The Commission further directs ATCO Electric and ATCO Pipelines, in their respective compliance filings:

(i) To apply a zero per cent vacancy rate to its shared services FTEs, and to make all the necessary salary, benefit and escalation adjustments to reflect the Commission's direction above on shared services FTEs.

(ii) To not offset the impacts of the reduction to capital FTEs with an increase in contractor costs.

(iii) To not adjust its capitalization policy with respect to FTEs.

(iv) To clearly identify how these various directions are complied with by showing each individual adjustment and the associated impact on shared services costs (i.e., reductions associated with salary adjustments, benefits, etc.).

267. With respect to the IT services function, ATCO Pipelines stated in evidence:[235]

> 110. As stated in AP-CAL-2020SEP10-002, the 2019 IT Assets Net Book Value inadvertently included Construction Work in Progress ("CWIP") related to all intangible assets for all entities and not just IT CWIP. AP [ATCO Pipelines] noted that the revenue requirement impact will be approximately $150,000 per year and will be updated in the compliance filing to the GRA Decision. AP notes this approach contributes to regulatory efficiency. [footnote omitted]

268. The Commission directs ATCO Pipelines, in its compliance filing, to make the revision stated in the quote above. ATCO Electric is directed to make the same revision, in its compliance filing, if the same error was made when preparing its 2020-2022 GTA.

[235] Exhibit 25663-X0125, AP rebuttal evidence, paragraph 110.

269. Finally, the Commission issued Direction 25 in Decision 23793-D01-2019.[236] The Commission finds that ATCO Pipelines has only partially complied with the direction because it failed to provide the assumptions and calculations of the shared services costs split between O&M and capital.[237] The Commission notes that ATCO Electric complied with a similar direction in Proceeding 24964.[238] ATCO Pipelines is directed, in its compliance filing, to provide the assumptions and calculations of the shared services costs split between O&M and capital as directed in Decision 23793-D01-2019.

270. The Commission emphasizes that all direction responses, to be provided in the respective compliance filings of ATCO Electric and ATCO Pipelines, should clearly demonstrate the impacts to each of their revenue requirements.

6 Return on rate base

271. Return on rate base is calculated after determining ATCO Pipelines' capital structure, comprising long-term debt, preferred shares and common equity, and applying the approved/requested cost rate to each of these three components. The cost of common equity of 8.50 per cent and the capital structure, including a common equity ratio of 37 per cent, for ATCO Pipelines are placeholders for 2021, 2022 and 2023 pending the outcome of the 2021 generic cost of capital (GCOC) proceeding and potentially a proceeding for the 2023 GCOC.

272. Subsequent to filing the application, the Commission issued Decision 24110-D01-2020 which approved the ROE of 8.5 per cent and deemed equity ratio of 37 per cent for 2021 on a final basis.[239]

Commission findings

273. The Commission finds that ATCO Pipelines' proposed placeholder treatment of ROE and its deemed equity ratio are reasonable, pending a determination of GCOC matters in future proceedings. ATCO Pipelines is directed to reflect the Commission's finding from Decision 24110-D01-2020 in the compliance filing to this decision.

7 Debt

274. ATCO Pipelines forecast the issuance of $95,000,000 of new debt at 3.06 per cent in 2021, $35,000,000 of new debt at 3.51 per cent in 2022, and $25,000,000 of new debt at 4.21 per cent in 2023. ATCO Pipelines forecast the cost of new debt issues using a methodology consistent with that approved by the Commission in Decision 3577-D01-2016 and Decision 23793-D01-2019,[240] using consensus forecasts.

236 Decision 23793-D01-2019, paragraph 318.
237 Exhibit 25663-X0005.
238 Proceeding 24964, Exhibit 24964-X0014.
239 Decision 24110-D01-2020: 2021 Generic Cost of Capital, Proceeding 24110, October 13, 2020, paragraph 1.
240 Decision 23793-D01-2019, paragraph 352.

275. ATCO Pipelines' embedded cost of debt is 4.11 per cent in 2021, 4.03 per cent in 2022, and 3.97 per cent in 2023.

276. The CCA argued that ATCO Pipelines' consensus forecast has overforecast interest rates over the past five to six years. The use of a consensus forecast is not a market rate because the 30-year debt rate must infer an additional premium based on a 10-year rate. The CCA argued that market transactions for the 30-year rates should be used instead of inferring a 30-year forward rate:[241]

Table 26. ATCO Pipelines' 30-year forward rates for specific dates

		30-year debt[242]		Average
	Dec 31 prior year[243]	June 30	Dec 31	
2021[244]	1.1	0.96313	0.97816	1.0138
2022	0.97816	0.99314	1.0087	0.9933
2023	1.0087	1.02471	1.0409	1.0248

277. While ATCO Pipelines forecast an average credit spread of 180 basis points,[245] the CCA argued that that the average credit spread of the 30-year debt issues since 2011 is 152 basis points.[246] Accordingly, the CCA recommended revised debt rates based, on the average forward rate and the mean reverting credit spread, shown below:

Table 27. CCA recommended debt rate using forward curve and credit spread

	Average forward rate	Credit spread	Forecast debt rate
2021	1.0138	1.52	2.53
2022	0.9933	1.52	2.51
2023	1.0248	1.52	2.54

278. The CCA recommended a debt rate in the order of 2.5 per cent or 2.6 per cent, consistent with the recent debt issuance of Canadian Utilities Inc. (CU Inc.)[247]

279. ATCO Pipelines argued that the 10-year consensus forecast rate plus an appropriate 10- to 30-year bond yield differential (i.e., a recently calculated average differential over the past year) provides a robust long-term (30-year) Government of Canada bond yield forecast. Further, ATCO Pipelines forecast its credit spread using the information available at the time of filing this GRA.

241 Exhibit 25663-X0092, CCA evidence, PDF page 5.
242 Exhibit 25663-X0047, AP-CCA-2020JUL28-021(a), Attachment 1, PDF pages 147-152.
243 Proxy for January 1.
244 https://www.bankofcanada.ca/rates/interest-rates/lookup-bond-yields, Rate on October 1, 2020, as proxy for January 1, 2021. Source: V39056: Government of Canada Benchmark Bond Yields - Long-Term of 1.10 per cent.
245 Cu Inc. debt issues from 2011 through 2019, and indicative spreads the week of May 18, 2020.
246 Exhibit 25663-X0047, PDF page 153, AP-CCA-2020JUL28-021(c) Attachment 1, excluding 2020 spread which was inflated because of the pandemic and has since fallen back, PDF page 53.
247 Transcript, Volume 1, page 147, lines 15-25 to page 148, lines 1-10. CU Inc. announced that it will issue C$150 million of 2.609% debentures due Sept. 28, 2050, at a price of C$100.

Commission findings

280. The Commission finds that ATCO Pipelines' use of a consensus forecast is consistent with the methodology previously approved in Decision 3577-D01-2016 and Decision 23793-D01-2019. In addition, the use of a forward curve was introduced in ATCO Pipelines' 2019-2020 GRA and was not adopted by the Commission. For these reasons and based on the evidence filed in this proceeding, the Commission is not persuaded that a change in forecasting methodology is warranted and it observes that any difference between actual and approved financing costs will be captured in ATCO Pipelines' debenture deferral account and trued up in the next GRA.

281. Notwithstanding the Commission's approval of ATCO Pipelines' consensus forecast methodology for forecasting debt, the Commission finds that actual market-based debt issuances should be used, if available.

282. On October 29, 2020, CU Inc. announced a September 2020, 30-year debenture issuance of $150 million, with a debenture rate of 2.609 per cent.[248]

283. As ATCO Pipelines' financing requirements are obtained through CU Inc. with debenture rates mirrored down to ATCO Pipelines, the Commission finds CU Inc.'s 2020, 30-year debenture issuance represents the best available market-based information to be used as a proxy for forecasting ATCO Pipelines' debt rates. ATCO Pipelines is therefore directed to revise its 2021-2023 forecast debt rate to mirror CU Inc.'s September 2020 debenture rate of 2.609 per cent.

8 Preferred shares

284. ATCO Pipelines did not forecast the issuance of any preferred shares in the 2021-2023 test year period, but there are preferred share rate resets forecast to occur for series 4 and V in 2021 and 2022, respectively. The embedded cost of preferred shares is 4.31 per cent in 2021, 4.37 per cent in 2022 and 4.43 per cent in 2023. The carrying costs of preferred shares are approximately $1.6 million annually for the 2021-2023 test years.

285. The CCA submitted that ATCO Pipelines secures all its funding through ATCO affiliates, and that financing through preferred shares versus debt results in a higher cost to customers. The CCA noted that Canadian Utilities buy back preferred shares on a regular basis.[249] The CCA recommended that ATCO Pipelines redeem its preferred shares or the interest rate paid on the ATCO affiliate controlled/held preferred shares be deemed to receive the long-term debt interest rate regardless if ATCO decides to retire preferred shares.

286. The CCA proposed that ATCO Pipelines redeem its preferred shares, effective January 1, 2022, which will allow ATCO a one-year period to redeem the shares with no penalty to ATCO by way of having to pay higher interest rates but recover lower rates. Alternatively, the CCA stated in evidence that "Furthermore, it points out one further option, namely that ATCO could

[248] www.sedar.com, Canadian Utilities Limited, October 29, 2020, MD&A-English.
[249] Exhibit 25663-X0092, PDF page 11.

commit to reducing the preferred dividend rate much closer to the long bond rate as it did with the Series 4 shares which used to be 3.8 per cent in 2015, and are now 2.24 per cent."[250]

287. ATCO Pipelines rejected the CCA's assertion that preferred shares are issued to ATCO affiliates to extract a higher return for ATCO Pipelines' parent companies. All of ATCO Pipelines' long-term funding, whether it be long-term debt or preferred shares, is sourced through ATCO Pipelines' parent company, CU Inc. (except in the case of Series V, which was issued by Canadian Utilities Limited in 1997 before CU Inc. was created). None of the preferred shares or long-term debt issued by ATCO Pipelines is purely intercompany between ATCO Pipelines and its parent. As such, ATCO Pipelines cannot change the rate on a financial instrument that ATCO Pipelines' parent accesses the capital markets for on behalf of the ATCO utilities in Alberta which is mirrored down to ATCO Pipelines on the exact terms and rates entered into by ATCO Pipelines' parent. ATCO Pipelines pays the same rates as its parent and benefits through economies of scale in accessing capital markets, which in turn results in lower financing costs.[251] ATCO Pipelines submitted that redeeming preferred shares or revising its current financing structure could impact transaction costs, credit metrics, and future debenture issuances and costs. Further, preferred shares are perpetual and are not subject to the same refinancing risk or issuance costs as debt. For example, ATCO Pipelines' Series 1 preferred shares have a fixed perpetual rate.[252]

Commission findings

288. The Commission is not prepared to adjust ATCO Pipelines' capital structure because of the concerns raised by the CCA with respect to preferred shares. The preferred shares represent less than two per cent of ATCO Pipelines' mid-year capital. The Commission agrees with ATCO Pipelines that preferred shares are not subject to the same refinancing risk and issuance costs, and there is insufficient evidence on the record of what impact the removal of preferred shares might have on credit metrics. The current financing structure mirrors down rates from ATCO Pipelines' parent which benefits customers from the economies of scale accessing capital markets, resulting in lower financing costs.

289. The Commission finds that deeming a dividend rate for preferred shares to align with current debt rates would be inconsistent with the obligations that ATCO Pipeline is required to pay for preferred shares.

290. In response to an IR, ATCO Pipelines provided an explanation of the preferred shares forecast for the test years and the differences between each of the preferred shares series and their respective forecast dividend rates.[253]

291. The Commission finds that ATCO Pipelines' preferred share forecast for the 2021-2023 test years is reasonable based on the approach identified above with the exception to ATCO Pipelines' Series V dividend rate. As the Series V dividend rate reset is subject to negotiation with shareholders, the Commission considers the current dividend rate of 4.60 per cent is a

250 Transcript, Volume 1, page 153, lines 1-25.
251 Exhibit 25663-X0125, AP rebuttal evidence, PDF page 46, referencing Exhibit 25663-X0047, ATCO Pipelines IR Responses to CCA, AP-CCA-2020SEP10-050(c).
252 Exhibit 25663-X0125, AP rebuttal evidence, PDF page 26.
253 Exhibit 25663-X0039.01, AP-UCA-2020JUL28-041.

reasonable proxy to be used for the test period. ATCO Pipelines is directed to revise its Series V dividend rate to 4.6 per cent for the 2021-2023 test period.

9 Large asset purchase deferral account

292. In its application,[254] ATCO Pipelines sought approval of a new deferral account for large asset purchases that may arise during the test period but it was unable to be forecast at the time of the GRA. The criteria proposed by ATCO Pipelines for this deferral account are:

- The asset acquisition cost is material (greater than $50 million); and
- The asset acquisition was unable to be forecast at the time of the GRA (in regard to cost and timing).

293. ATCO Pipelines stated that the deferral account is needed due to the possibility of a large asset purchase arising during the test period. ATCO Pipelines proposed to include a zero-dollar placeholder for projects meeting the deferral account criteria.

294. ATCO Pipelines identified a project meeting the criteria for this deferral account. In its letter dated October 6, 2020,[255] filed in this proceeding, ATCO Pipelines stated that Canadian Utilities announced on October 1, 2020, that ATCO Gas and Pipelines Ltd. had entered into a Pipeline Sale Agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation. ATCO Pipelines indicated that it intends to update the placeholder for the large asset purchases deferral account with the revenue requirement resulting from the facility application in its GRA compliance filing.

295. The UCA submitted that it is not clear why ATCO Pipelines has determined it now requires a deferral account. ATCO Pipelines identified no potential projects it is considering that could qualify for this deferral treatment, nor any projects in the past 10 years that would have qualified for this treatment beyond the Pioneer Pipeline acquisition. Further, ATCO Pipelines failed to explain why deferral account treatment of the Pioneer Pipeline costs could not have been included in ATCO Pipelines' facilities application. The UCA recommended denial of ATCO Pipelines' Large Asset Purchases deferral account.[256]

296. The CCA recommended that the Commission reject ATCO Pipelines' proposal for a Large Asset Purchases deferral account and the revenue requirement be dealt with in facility Proceeding 25937.[257]

297. Western Export Group argued that an AUC determination of whether acquisition costs of the Pioneer Pipeline should be included in revenue requirements of NGTL and ATCO should be subject to a need and prudency determination by the Commission and the Canada Energy Regulator in their respective facility proceedings and not in the subject proceeding by way of a deferral account.[258]

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254 Exhibit 25663-X0001, application, PDF page 10.
255 Exhibit 25663-X0091, AP comments on Pioneer Pipeline.
256 Exhibit 25663-X0095, UCA evidence, PDF page 56.
257 Transcript, Volume 1, page 82, lines 5-8. CCA argument.
258 Exhibit 25663-X0133, WEG oral argument references, PDF page 17.

298. ATCO Pipelines argued that the CCA's recommendation to reject the deferral account because there is "uncertainty that the account would ever be required" is contrary to the evidence and should be dismissed by the Commission. Further, interveners failed to address how a facilities application could be subsequently incorporated into ATCO Pipelines' revenue requirement absent a deferral account, in the circumstance where a facilities application decision is issued after a final GRA revenue requirement is approved.[259] ATCO Pipelines stated that the Large Asset Purchases deferral account is an efficient means to incorporate the costs of the Pioneer Pipeline acquisition into ATCO Pipelines' revenue requirement.

Commission findings

299. The Commission is not persuaded that a deferral account is required for large asset purchases. There have been no large asset purchases over the last 10 years that ATCO Pipelines was unable to forecast at the time of prior GRAs that meet the proposed criteria for the Large Asset Purchases deferral account.[260] The criteria set out in Decision 2003-100 have not been met because there is not uncertainty regarding the accuracy and ability of ATCO Pipelines to forecast amounts related to large asset purchases. The only example of a project that supports the creation of a deferral account is the Pioneer Pipeline application that is currently being considered in Proceeding 25937. Further, the Commission considers that forecasting a large asset purchase is within the control of ATCO Pipelines and that it is not a risk that typically impacts ATCO Pipelines' forecast, which are also factors that the Commission uses when evaluating the need for a deferral account. As a result, ATCO Pipelines' request for a Large Asset Purchases deferral account is denied. The Commission does approve a zero-dollar placeholder pending a Commission determination of ATCO Pipelines' facilities application related to the acquisition of the Pioneer Pipeline.

10 Order

300. It is hereby ordered that:

(1) ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than April 1, 2021.

[259] Transcript, Volume 1, pages 94-96, AP argument.
[260] Exhibit 25663-X0036.01, AP-AUC-2020JUL28-001(a).

Dated on March 1, 2021.

Alberta Utilities Commission

(original signed by)

Douglas A. Larder, QC
Acting Commission Member

(original signed by)

Carolyn Hutniak
Commission Member

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Pipelines (AP) Bennett Jones LLP
Canadian Association of Petroleum Producers (CAPP)
Consumers' Coalition of Alberta (CCA) Wachowich & Company LLP
Industrial Gas Consumers Association of Alberta (IGCAA)
NOVA Gas Transmission Ltd. (NGTL)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP
Tenaska Marketing Canada, a division of TMV Corp.
The City of Calgary (Calgary) McLennan Ross LLP
Western Export Group

Alberta Utilities Commission Commission panel D.A. Larder, QC, Acting Commission Member C. Hutniak, Commission Member N. Jamieson, Commission Member Commission staff A. Sabo (Commission counsel) M. McJannet P. Baker F. Alonso L. Osanyintola

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. The Commission has reviewed the estimated rate base for 2020. At the time of the close of record, ATCO Pipelines' actual closing 2020 rate base information was not available. The Commission makes no finding with respect to 2021 opening rate base because 2021 opening rate base must be determined when actuals are known. ATCO Pipelines' 2021 opening rate base amounts will also be affected by the Commission's findings in other areas of this decision. Because actual information will be available at the time of ATCO Pipelines' compliance filing, ATCO Pipelines is directed to provide its 2020 closing rate base actuals in its compliance filing to this decision. .... paragraph 18

2. On the record of this proceeding, ATCO Pipelines provided the pipeline length per segment for each asset transfer, the associated revenue requirement impacts of $108,000 for 2021, $110,000 for 2022 and $111,000 for 2023 for UPR transfers or retirements, and the remaining net book value of $2.1 million. ATCO Pipelines acknowledged that the net book value of $2.1 million was removed from ATCO Gas' rate base. However, there is insufficient information to demonstrate that ATCO Pipelines has adjusted for the transfer or retirement of its UPR assets in its closing 2020 rate base. ATCO Pipelines is directed to file updated schedules showing the treatment of the asset transfers and retirements from its rate base, the corresponding associated revenue requirement impacts and the removal of the asset transfers or retirements from its closing 2020 rate base in the compliance filing to this decision. ATCO Pipelines is also directed to provide a detailed list of any future asset transfers of this nature in future proceedings. .... paragraph 32

3. ATCO Pipelines has referenced several criteria for whether a project is included in its three-year rolling average; namely, the project: is initiated and in-service within the test period; is under a $15 million threshold; and meets the intent of "repeatable work." The Commission finds that the Stoney Project does not meet ATCO Pipelines' threshold of $15 million for use in the three-year rolling average. The Commission does not agree with ATCO Pipelines that this threshold serves only as a guideline. It is reasonable to have a cut-off point for the calculation of a three-year rolling average for general growth projects and the $15 million threshold has been previously accepted for general growth projects. The Commission directs ATCO Pipelines to remove the Stoney Project from ATCO Pipelines' three-year rolling average used to forecast general growth costs. The Commission does not accept the UCA's request for a reduction of the threshold to $10 million because there is insufficient evidence to support that a $10 million threshold is superior to a higher threshold in preparing forecasts for general growth project capital expenditures. .... paragraph 43

4. ATCO Pipelines is directed to revise its revenue requirement and capital expenditure forecasts in its compliance filing to this decision to reflect the removal of the Stoney Project from the three-year rolling average in the general growth category. The $15 million threshold for including capital projects in ATCO Pipelines three-year rolling average for general growth projects is confirmed... paragraph 44

5. Further information about the barriers for completion of work and more specific information on the need for a significant extension of the program would have assisted the Commission in assessing the updated forecast cost increases associated with the ILI program. For example, extensions to a capital spend program might be reasonable if labour or contractors are not available, or if frozen ground conditions persist, or unusual weather-related events prevent the steady progression of work. Evidence of these types of situations is not on the record. In any event, the Commission is not satisfied that ATCO Pipelines has adequately explained the need for the significant increase in capital expenditures to ensure pipeline integrity in the test years, and costs for items such as higher ILI tool rental costs and contractor rates. There should have been further support provided for the ILI program given that historical levels of work undertaken were not as expected, further rationale for the cost increases, and a thorough description of the underlying drivers that resulted in an extension of the ILI program beyond 2023 for pipeline upgrades and 2025 for inspections and digs. The Commission denies the updated forecasts for inclusion in the improvement and replacement capital expenditures for the 2021 to 2023 test period. ATCO Pipelines is directed to revise its forecasts to maintain its previously approved 2020 ILI amounts for pipeline upgrades, inspections, digs and removals from Decision 23793-D01-2019, in its compliance filing. .... paragraph 64

6. The Commission is concerned that increases in average excavation costs are driving a significant increase in capital expenditures: from $36,809,000 to $56,277,000 in weld inspection costs. Reviewing the sample of projects provided by ATCO Pipelines to illustrate increased excavation costs, the Commission is not satisfied that ATCO Pipelines has adequately justified why average excavation costs have increased from $37,000 to $55,000. The Commission observes that there was a significant increase in capital expenditures in 2019 for completed projects, where the average cost per site has doubled in 2019 in comparison to prior years. Although each individual project presents unique excavation challenges, the Commission finds that the types of excavation challenges that ATCO Pipelines has identified (i.e., wet or frozen site conditions, backfill and reclamation, access issues, size of required excavations to locate all targeted welds per project, depth and accessibility of welds at congested sites that require shoring and the variation in number of welds exposed per excavation) would have also been present for projects prior to 2019 given the level of activity. As a result, the Commission is not prepared to approve ATCO Pipelines' increased average excavation costs of $55,000 as a representative number for this period, as these increases in excavation costs have not been reasonably supported on the record. The Commission is of the view that the actual projects identified by ATCO Pipelines in 2018 and 2019 only represent a limited snapshot. Nevertheless, the Commission is willing to accept that there may be instances where actual excavation costs will increase in the future. As a result, ATCO Pipelines is directed to revise its 2021-2023 weld inspection forecast by calculating the average excavation costs per site using the actual data from projects completed from the initiation of the program in 2016 to the end of 2020, in its compliance filing................ paragraph 71

7. The UCA suggested that a more cautionary and incremental approach to security upgrades is warranted. The Commission agrees. The Commission finds that it would be beneficial for ATCO Pipelines to start tracking the types of incidents, not just by theft or mischief, but how the outcome of the incident relates to risk. The utility may also wish to undertake some site visits with a security expert or consultant to understand if security upgrades are required and to advise on whether upgrades will mitigate the real risks to Level 2 sites. If ATCO Pipelines chooses to propose security upgrades to Level 2 sites in

future applications, it is directed to: provide a cost-benefit analysis and a risk assessment to justify costs, in addition to information on the types of incidents at Level 2 sites and how the incident relates to a risk that should be mitigated through increased security measures; and review its inclusion of historical data and how historical information impacts its consequence model and risk assessment of sites. .... paragraph 82

8. The Commission finds that there is insufficient evidence to approve the proposed capital expenditures for increased security measures at Level 2 sites at this time and denies the Pipeline Facilities Security Program for the 2021-2023 test years. ATCO Pipelines is directed to remove the proposed capital expenditures for this program in its compliance filing to this decision... paragraph 83

9. As CWIP schedules are provided in GTAs for electric utilities, the Commission finds that it would be beneficial for ATCO Pipelines to provide these schedules on a go-forward basis in each GRA, and that would avoid the Commission requesting these schedules in an IR in each GRA. ATCO Pipelines is directed to provide CWIP continuity schedules on a go-forward basis in its future GRAs. .... paragraph 98

10. The Commission directs ATCO Pipelines, in the compliance filing to this decision, to incorporate and provide an overall reduction to forecast operating costs of five per cent in each of 2021, 2022 and 2023. A five per cent top-down adjustment is within the range of adjustments proposed by the CCA and the UCA, and in the Commission's view, is reasonable having regard to the range of historical variances between forecast, approved and actual costs. .... paragraph 116

11. To avoid the effects of double counting, ATCO Pipelines is directed to remove any cost categories where the Commission has made specific reductions in Section 5.2 to Section 5.9 before applying the five per cent top-down adjustment. As a result, the total O&M costs to be included in revenue requirement are: (i) the costs approved for the individual cost categories in Section 5.2 to Section 5.9; plus (ii) the cost approved for the remaining O&M categories not included in (i), with a five per cent reduction applied. .... paragraph 117

12. Given the limited amount of comparable wage settlement agreement data for 2021 (only seven out of the 23 wage settlement agreements), the current economic downturn and the impact of the COVID-19 pandemic, the forecast 2.2 per cent requested for each of the test years is high. The Commission finds that a 1.6 per cent increase for in-scope employees, which is the bottom of the average escalator range from 2017 to 2021, is likely more representative of forecast salary escalators for the test period given the current economic conditions. Further, in the application, ATCO Pipelines also noted that the agreement for 2021 and beyond has not been negotiated, and negotiations were expected to commence in October 2020. No updated information on a negotiated rate for ATCO Pipelines' in-scope labour rate was available at the close of record of this proceeding. For these reasons, the Commission approves a 1.6 per cent increase for each of 2021, 2022 and 2023. ATCO Pipelines is directed to revise its in-scope employee salary escalator to 1.6 per cent and show the impacts to revenue requirements in its compliance filing. .... paragraph 121

13. The Commission is not persuaded that the current economic climate supports the out-of-scope labour escalation requested by ATCO Pipelines. The Commission finds that an out-of-scope labour escalation rate of 0.8 per cent for each of 2021, 2022 and 2023 is more reflective of the current market. For these reasons, ATCO Pipelines is directed to revise

its out-of-scope employee salary escalator to 0.8 per cent and show the impacts to revenue requirements in its compliance filing. .... paragraph 130

14. Accordingly, the Commission approves ATCO Pipelines' forecast vacancy rate of 3.9 per cent for O&M and 3.3 per cent for capital for each of 2021, 2022 and 2023. Consistent with this determination, ATCO Pipelines is directed to revise its forecast vacancy rates and show the impacts to revenue requirements in its compliance filing. ...... paragraph 138

15. The Commission directs ATCO Pipelines, in the compliance filing, to remove the forecast costs for the Pressure Vessel Inspection Compliance Program of $753,000 in 2021 and $75,000 in 2022 from its revenue requirements............................ paragraph 144

16. For the reasons that follow, the Commission directs ATCO Pipelines to establish a deferral account to include the $2.3 million in forecast pandemic expenses over the test period. .... paragraph 148

17. Having regard to those circumstances and most particularly, the current economic conditions, ATCO Pipelines has failed to satisfy the Commission that MTIP awards are reasonably necessary to attract or retain experienced key employees or reward longer-term commitments to the company. The Commission denies ATCO Pipelines' 2021-2023 forecast MTIP costs of $339,000 for the test period. ATCO Pipelines is directed to remove these costs from its revenue requirements in the compliance filing. paragraph 155

18. The Commission agrees with Calgary that ATCO Pipelines should develop a long-range plan for its IT spending and provide documentation supporting that ATCO Pipelines' IT spending, capital and O&M are consistent with those of relevant comparators. In addition, information should be provided on the role of corporate and shared services into the development of the IT plan and future IT spend. More specifically, for General Enterprise IT projects, that include initiatives from IT common groups or any other IT capital expenditures where the decision to deploy IT services is determined at the ATCO Group head office, ATCO Pipelines is directed to clearly explain its role and the role of the ATCO Group in the IT decision-making process and provide justification of the need for the project, particularly as relates to ATCO Pipelines. ATCO Pipelines is directed to provide its long-term IT plan and detailed IT business cases in the next GRA. .... paragraph 181

19. In view of the foregoing, the Commission directs ATCO Pipelines to establish a deferral account for forecast property tax expenses over the test period. .... paragraph 192

20. To adjust for historical property tax forecasting inaccuracies, ATCO Pipelines is also directed to reduce its property tax forecast for the 2021-2023 test years by 10 per cent, which is approximately the midpoint of the range by which property taxes have been overforecasted from 2015-2019. ATCO Pipelines has alleged that it should not be subjected to forecast reductions as a result of variance between previously approved forecasts and actuals. Historical averages used to derive a forecast do not result in retroactive ratemaking; rather they are used to help project the costs that will be required in the test period. The amounts to be recovered in 2021-2023 were forecast by ATCO Pipelines based on its historical trend, and the Commission is able to set the amounts to be recovered on a forecast basis, using either approved or actual historical information that informs the 2021-2023 test period. This exercise does not result in retroactive ratemaking because the Commission is not adjusting approved costs from past test periods or trying to recover previous over-recoveries. .... paragraph 193

21. ATCO Pipelines and ATCO Electric are directed to revise their lease and operating rates according to the Commission's findings in this section of the decision, in their respective compliance filings. .... paragraph 220

22. In view of the above, there is a need for further testing to confirm the reasonableness and accuracy of the GCA allocation methodology, and to ensure the reasonableness of the associated GCA allocations as between regulated and non-regulated entities. The Commission therefore directs each of ATCO Pipelines and ATCO Electric to conduct an analysis that examines direct charging (or some reasonable and defensible proxy of effort or time) for the supply chain and financial services (excluding accounts payable) functional groups and to produce a cost allocation for each ATCO group entity, for both functional groups (including each financial services subfunction). ATCO Pipelines and ATCO Electric are directed to track and record the information associated with this analysis from January 1, 2022 to December 31, 2022, inclusive. If ATCO Pipelines and ATCO Electric choose to use a time estimate or level-of-effort estimate, rather than direct charging to comply with this direction, they must explain the methodology used to produce those estimates and be prepared to file evidence on the reasonability of the chosen estimate. ATCO Electric and ATCO Pipelines are directed to file this information in their next GTA and GRA, respectively, following the completion of the requested analysis. .... paragraph 244

23. The first relates to the use of 2019 actual variables as inputs into the shared services allocation formulas. The Commission finds that the use of 2019 actual variables will maintain consistency between Proceeding 24964 and Proceeding 25663. In its compliance filing, ATCO Electric is therefore directed to use 2019 actual variables in place of 2018 actual variables as inputs into the shared services allocation formulas, and to adjust its shared services allocations accordingly. .... paragraph 246

24. The second issue concerns the clarification of the weighting between IT annual operating costs and IT asset net book value used in the IT services allocator (Table 20 above). In AET-AUC-2019DEC16-033, the Commission asked ATCO Electric to confirm that its calculations for the IT services allocator is based on an equal (50 per cent) weighting of IT annual operating costs and IT asset net book value. In the Commission's view, the calculation provided in ATCO Electric's application does not demonstrate that IT annual operating costs and IT asset net book value are weighted equally (50 per cent). For comparison purposes, the Commission observes that the approach used by ATCO Electric to calculate the GCA in Exhibit 24964-X0014, Excel worksheet tab "Attachment 25.1.2 (Allocators)," which weighs net revenues, total assets and total labour costs equally (33.33 per cent), is not the same as the approach used to calculate the IT services allocator. Accordingly, in their respective compliance filings, ATCO Electric and ATCO Pipelines are directed to recalculate the IT services allocator using the same approach (i.e., the approach to weighting the variables) that was used to calculate the GCA in Exhibit 24964-X0014, Excel worksheet tab "Attachment 25.1.2 (Allocators)," and to make the necessary adjustments to the IT services cost allocations. To clarify, the Commission is not directing ATCO Electric and ATCO Pipelines to allocate IT services costs through the GCA, but to apply a 50 per cent weighting to each of IT annual operating costs and IT asset net book value. .... paragraph 247

25. The third issue deals with deferral accounts. The CCA recommended that deferral account adjustments be included within net revenues for the GCA allocator, and cited the Commission's findings in Decision 22742-D01-2019 as justification for this

recommendation. The Commission accepts the CCA's recommendation, and for similar reasons as those outlined in Decision 22742-D01-2019, directs ATCO Electric and ATCO Pipelines, in their respective compliance filings, to adjust their shared services cost allocations by including deferral account revenues in calculating net revenues for the GCA. .... paragraph 248

26. Finally, in Proceeding 24964, ATCO Electric stated that Canadian Utilities Limited sold Alberta PowerLine in 2019, and that Alberta PowerLine was consequently removed from the shared services allocation formulas to reflect this sale. However, the CCA submitted evidence showing that shared services employees may, either directly or indirectly, be providing services to Alberta PowerLine. The Commission directs ATCO Electric and ATCO Pipelines to confirm, in their respective compliance filings, that shared services employees are no longer providing services to Alberta PowerLine, and that no direct or indirect services will be provided to Alberta Powerline in the 2020-2022 GTA test period or the 2021-2023 GRA test period. .... paragraph 249

27. Except for the innovation function, the Commission directs ATCO Electric and ATCO Pipelines, in their respective compliance filings, to use 2019 actual FTEs (shown above in Table 22) as the approved total pre-allocated shared services FTE complement for all GTA and GRA test years, and to then allocate these total pre-allocated shared services FTE complements (and the associated costs) in accordance with the allocators approved above. When adjusting their respective shared services costs to reflect the Commission's direction, ATCO Electric and ATCO Pipelines are also directed, in their respective compliance filings, to use 2019 actual shared services staff compositions as found in Proceeding 24964, Exhibit 24964-X0345.01.. paragraph 260

28. As the innovation function was created in 2020, 2019 data is not available. Given this, the Commission directs ATCO Electric and ATCO Pipelines to use 2020 forecast FTEs (shown above in Table 22) as the approved total pre-allocated FTE complement for all GTA and GRA test years, and to then allocate these total innovation FTE complements (and the associated costs) in accordance with the allocators approved above. .... paragraph 261

29. Accordingly, the Commission directs ATCO Electric and ATCO Pipelines, in their respective compliance filings, to further reduce the total pre-allocated pool of IGRS FTEs by four FTEs, resulting in 11 total pre-allocation FTEs for the IGRS function, for each GTA and GRA test year. Furthermore, in their respective compliance filings, ATCO Electric and ATCO Pipelines must identify, by using Exhibit 24964-X0345.01 from Proceeding 24964, which positions and FTEs were removed to comply with this direction (i.e., each of ATCO Electric and ATCO Pipelines must explain how they adjusted the employee composition of the IGRS functional group). Any changes to employee compositions must be coordinated between the two utilities........................ paragraph 265

30. The Commission further directs ATCO Electric and ATCO Pipelines, in their respective compliance filings:

(i) To apply a zero per cent vacancy rate to its shared services FTEs, and to make all the necessary salary, benefit and escalation adjustments to reflect the Commission's direction above on shared services FTEs.

(ii) To not offset the impacts of the reduction to capital FTEs with an increase in contractor costs.

(iii) To not adjust its capitalization policy with respect to FTEs.

(iv) To clearly identify how these various directions are complied with by showing each individual adjustment and the associated impact on shared services costs (i.e., reductions associated with salary adjustments, benefits, etc.).

....paragraph 266

31. The Commission directs ATCO Pipelines, in its compliance filing, to make the revision stated in the quote above. ATCO Electric is directed to make the same revision, in its compliance filing, if the same error was made when preparing its 2020-2022 GTA.

.... paragraph 268

32. Finally, the Commission issued Direction 25 in Decision 23793-D01-2019. The Commission finds that ATCO Pipelines has only partially complied with the direction because it failed to provide the assumptions and calculations of the shared services costs split between O&M and capital. The Commission notes that ATCO Electric complied with a similar direction in Proceeding 24964. ATCO Pipelines is directed, in its compliance filing, to provide the assumptions and calculations of the shared services costs split between O&M and capital as directed in Decision 23793-D01-2019. .... paragraph 269

33. The Commission finds that ATCO Pipelines' proposed placeholder treatment of ROE and its deemed equity ratio are reasonable, pending a determination of GCOC matters in future proceedings. ATCO Pipelines is directed to reflect the Commission's finding from Decision 24110-D01-2020 in the compliance filing to this decision. .... paragraph 273

34. As ATCO Pipelines' financing requirements are obtained through CU Inc. with debenture rates mirrored down to ATCO Pipelines, the Commission finds CU Inc.'s 2020, 30-year debenture issuance represents the best available market-based information to be used as a proxy for forecasting ATCO Pipelines' debt rates. ATCO Pipelines is therefore directed to revise its 2021-2023 forecast debt rate to mirror CU Inc.'s September 2020 debenture rate of 2.609 per cent. .... paragraph 283

35. The Commission finds that ATCO Pipelines' preferred share forecast for the 2021-2023 test years is reasonable based on the approach identified above with the exception to ATCO Pipelines' Series V dividend rate. As the Series V dividend rate reset is subject to negotiation with shareholders, the Commission considers the current dividend rate of 4.60 per cent is a reasonable proxy to be used for the test period. ATCO Pipelines is directed to revise its Series V dividend rate to 4.6 per cent for the 2021-2023 test period. .... paragraph 291

36. It is hereby ordered that:

(1) ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than April 1, 2021. .... paragraph 300

Appendix 3 – Detailed breakdown of capital expenditures

(return to text)

Table 28. ATCO Pipelines' forecast UPR expenditures

Description	2018 LTD	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast	Total project
	($000)						
Edmonton							
Northwest Edmonton Connector	28,274	(319)	-	-	-	-	27,955
Southwest Edmonton Connector	98,261	125	250	-	-	-	98,636
Northeast Edmonton Connector	2,079	1,210	4,200	2,721	520	-	10,730
South Edmonton Connector	5,842	15,317	3,700	357	5	-	25,221
Calgary							
East Calgary Connector	68,680	17	-	-	-	-	68,697
Southeast Calgary Connector	63,998	32	-	-	-	-	64,030
Northeast Calgary Connector	77,683	62	-	-	-	-	77,745
Peigan Trail Lateral	11,938	373	20	-	-	-	12,331
West Calgary Connector	91,245	559	250	-	-	-	92,054
Northwest Calgary Connector	3,300	6,863	5,000	71,330	1,282	-	87,775
Southwest Calgary Connector	80,989	2,192	250	-	-	-	83,431
Total UPR	**532,289**	**26,431**	**13,670**	**74,408**	**1,807**	**-**	**648,605**

Source: Exhibit 25633-X0001, application, Table 2.3.1-1, PDF page 27.

Table 29. ATCO Pipelines' forecast growth expenditures

Description	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
Alberta System Upgrades					
Inland (508mm) Looping	452	-	-	-	-
South Airdrie Lateral - Acquisition	33	50	1,325	-	-
Sturgis Lake Compressor Station - Upgrade	-	565	320	-	-
Carryover	30	-	-	-	-
Sub-total Alberta System Upgrades	**515**	**615**	**1,645**	**-**	**-**
Industrial Delivery Customers					
Pembina-Keephills Transmission	137,196	59,000	3,159	-	-
Scotford PDH Lateral and Delivery	106	2,500	-	-	-
Dalemead Lake Delivery	226	795	-	-	-
Scotford Expansion	387	-	-	-	-
Redwater Co-Gen Delivery #2	114	-	-	-	-
Keephills Expansion – Control and Delivery Stations	-	2,300	3,500	-	-
Redwater PDH Delivery Station	-	-	-	225	1,464
Carryover	64	-	-	-	-
Sub-total Industrial Delivery Customers	**138,093**	**64,595**	**6,659**	**225**	**1,464**
LDC Utilities					
Stoney Trans and Stoney & Nose Creek Gates	7,388	-	459	-	-
Install Lloydminster Looping and Lloydminster Gate 3	2,152	-	-	-	-
Cloverbar CNG Delivery Station	641	-	-	-	-
Gleichen-Cluny Looping – Installation	-	76	2,504	105	-

Description	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
Carryover	(25)	-	-	-	-
Sub-total LDC Utilities	**10,156**	**76**	**2,963**	**105**	**-**
Receipt Customers					
Silver Lake Receipt	1,415	-	-	-	-
Sub-total Receipt Customers	**1,415**	**-**	**-**	**-**	**-**
Sub-total Large Projects	**150,179**	**65,286**	**11,267**	**330**	**1,464**
General*	1,427	2,592	2,856	10,853	9,943
Sub-total General	**1,427**	**2,592**	**2,856**	**10,853**	**9,943**
Large Asset Purchases Deferral Account					
Asset Purchase Placeholder	-	-	-	-	-
Sub-total Asset Purchase Deferral Account	**-**	**-**	**-**	**-**	**-**
Total Growth	**151,606**	**67,878**	**14,123**	**11,183**	**11,407**
Contributions	**(7)**	**(1,800)**	**-**	**-**	**-**

*General Category includes small System Upgrades, Industrials Deliveries, Receipts, LDC, Pipelines, Land & Structures.
Source: Exhibit 25633-X0001, application, Table 2.3.2-1, PDF page 30.

Table 30. ATCO Pipelines' forecast improvement and replacement expenditures

Description	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
Pipelines					
ILI Program	36,539	35,544	28,757	39,733	40,296
Lethbridge Urban Pipeline Upgrade	1,215	4,283	11,229	11,358	2,692
Viking #3 and Viking #4 – Upgrade for ILI	6,272	2,400	5,000	3,500	3,500
Weld Assessment and Repair Program (WARP)	11,777	10,500	7,000	7,000	6,000
Depth of Cover Program	7,302	7,055	7,190	7,333	7,479
MOP Verification and Hydrostatic Pressure Testing Program	1,139	59	125	2,700	1,025
Spruce Grove and Stony Plain Urban Pipeline Upgrade	-	58	504	10,020	882
AC Mitigation Program	2,757	3,406	3,653	-	-
East Calgary Lateral – Class Location Upgrade	5,262	-	-	-	-
Carryover	114	-	-	-	-
Sub-total Pipelines	**72,377**	**63,305**	**63,458**	**81,644**	**61,874**
Facilities and Salt Cavern Gas Storage					
RTU Replacement and Upgrade Program	5,940	5,306	4,800	4,500	4,200
Remote Operated Valves Program	2,498	2,564	3,709	3,313	2,948
Pembina 8 Receipt	746	-	-	-	-
North Wabamun Control	139	-	-	-	-
Viking Control	206	2,943	-	-	-
Peavey Control	27	400	-	-	-
Viking Legal Uncas Control	5	870	-	-	-
Pipeline System Facilities Security Program	-	-	1,020	1,040	1,061
Sub-total Facilities and Salt Cavern Gas Storage	**9,561**	**12,083**	**9,529**	**8,853**	**8,209**

Description	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
Buildings and Other					
APEC Yard and Building Modifications	81	-	2,025	1,900	-
Carryover	81	-	-	-	-
Sub-total Buildings and Other	**81**	**-**	**2,025**	**1,900**	**-**
Sub-total Large Projects	**82,019**	**75,388**	**75,012**	**92,397**	**70,083**
General					
Pipelines	7,493	6,524	6,763	6,899	7,038
Measurement and Regulating Stations	7,394	6,291	8,062	8,223	8,387
Compressor Stations	2,114	2,019	2,058	2,099	2,141
Salt Caverns	2,360	2,528	1,696	1,730	1,765
Cathodic Protection and Corrosion Control	891	1,250	1,274	1,299	1,325
Process Control	2,910	2,656	2,707	2,761	2,816
SCADA [supervisory control and data acquisition]	1,325	1,174	1,230	1,136	1,152
Land & Structures	941	725	154	288	341
Moveable Equipment	2,249	2,635	2,493	3,082	3,063
Sub-total General	**27,678**	**25,802**	**26,437**	**27,517**	**28,028**
Total Improvements and Replacements	**109,697**	**101,190**	**101,449**	**119,914**	**98,111**
Contributions	**(2,624)**	**(2,618)**	**(1,694)**	**(385)**	**(392)**

Source: Exhibit 25633-X0001, application, Table 2.3.3-1, PDF page 35.

Table 31. ATCO Pipelines' forecast relocation expenditures

Description	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
	($000)				
Large Projects					
Hermit Lake Trans (219mm) – Range Road 64	539	-	-	-	-
Devon Trans (219mm) – Hwy 19	53	947	-	-	-
Ft Sask North Edmonton Lateral (168mm) – Hwy 15	35	1,565	-	-	-
Bittern Lake - Redwater Trans (168mm)	2	773	-	-	-
Mundare - Bruderheim Trans (88mm)	2	1,146	-	-	-
Viking 3 & 4 Trans (406mm) – Hwy 834	1,996	-	-	-	-
Grande Prairie – Spirit River Trans (114mm) – 132 Ave	514	-	-	-	-
Villeneuve Trans (323mm)	1,663	-	-	-	-
Worsley McLennan Trans (168mm) – Peace River Bridge	-	2,750	-	-	-
Carryover	(153)	-	-	-	-
Sub-total Large Projects	**4,651**	**7,181**			
General					
Relocations	534	933	-	-	-
Sub-total General	**534**	**933**	**-**	**-**	**-**
3-Year Average Forecast (2017-2019)			**10,234**	**10,438**	**10,647**
Total Relocations	**5,185**	**8,114**	**10,234**	**10,438**	**10,647**
Contributions	**(6,621)**	**(7,009)**	**(9,211)**	**(9,395)**	**(9,583)**

Source: Exhibit 25633-X0001, application, Table 2.3.4-1, PDF page 41.

Table 32. ATCO Pipelines' forecast IT expenditures

Description	2019 Actuals	2020 Estimate	2021 Forecast	2022 Forecast	2023 Forecast
			($000)		
IT Large Projects (>$500)					
MMS Upgrade and Migration	2,101	-	-	-	-
GIS Replacement	652	-	-	-	-
Oracle E-Business Upgrade	371	-	-	-	-
CBWS	36	1,910	870	-	-
Maximo Below Ground Asset Migration	-	1,350	-	-	-
ESRI ArcFM Viewer	30	470	-	-	-
Quantitative Risk Algorithm PIMS Enhancement	58	456	-	-	-
Asset Management Program	-	150	214	408	360
Workforce Management Program	-	-	611	577	371
MARS (Measurement and Reporting System) Replacement	-	-	-	-	3,181
Subtotal Large Projects	**3,248**	**4,336**	**1,695**	**985**	**3,912**
IT Projects - General					
Lifecycle Management					
General	593	542	994	372	366
Enhancements					
General	59	-	204	-	-
Enterprise Projects					
General	1,262	2,412	1,600	1,271	558
TOTAL IT Projects	**5,162**	**7,290**	**4,493**	**2,628**	**4,836**

Source: Exhibit 25633-X0001, application, Table 2.3.5-2, PDF page 50.