Alberta Utilities Commission

ATCO Electric Ltd.

2020-2022 Transmission General Tariff Application

March 1, 2021

Alberta Utilities Commission
Decision 24964-D01-2021
ATCO Electric Ltd.
2020-2022 Transmission General Tariff Application
Proceeding 24964

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Contents

List of tables

1 Decision summary

1. This decision reflects the Alberta Utilities Commission's determinations on head office rent and the shared services initiative in ATCO Electric Ltd.'s (ATCO Electric or AET) 2020-2022 transmission general tariff application (GTA). In this decision, the Commission panel has found that not all of the forecast revenue requirements related to head office rent and the shared services initiative are reasonable, and has revised or denied these amounts.

2. The Commission's determinations with respect to the remainder of ATCO Electric's forecast revenue requirements for the 2020-2022 test period will be issued in Decision 24964-D02-2021.

2 Common issues for Proceeding 25663 and Proceeding 24964

3. 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.

4. 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 [general rate application]/GTA, preferably filing common documents wherever possible.

5. 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 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 [operation and maintenance] 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.

6. Given the commonality of the issues and evidence on ATCO Park - head office rent and the 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 25663 but not all directions apply to both utilities. Records referred to in the findings from each of the proceedings are footnoted.

2.1.1 ATCO Park – head office rent

7. 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.

8. 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 1. 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: Proceeding 25663, Exhibit 25663-X0086, AP-AUC-2020SEP10-011, PDF page 25.

Table 2. 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: 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

9. 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.[1]

10. 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-

1 Proceeding 25663, Exhibit 25663-X0036.01, AP-AUC-2020JUL28-050(d)(iii), Attachment 1, PDF page 227.

2019,[2] the Commission found that the time for assessing the fair market value (FMV) of ATCO Park's head office rent was August 1, 2017.[3]

11. The Consumers' Coalition of Alberta (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.[4]

12. 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.[5]

13. 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.[6]

Commission findings

14. 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,[7] the compliance filing to ATCO Electric's 2018-2019 GTA.[8]

15. 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.

16. 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.[9] 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.

2 Decision 22742-D01-2019: ATCO Electric Ltd., 2018-2019 Transmission General Tariff Application, Proceeding 22742, July 4, 2019.
3 Decision 22742-D01-2019, paragraph 666.
4 Proceeding 25663, Exhibit 25663-X0092, CCA evidence, paragraphs 42-45.
5 Exhibit 24964-X0543, AET Rebuttal Evidence to CCA, Part 01, Section 04, Attachment 1.
6 Exhibit 24964-X0609, CCA argument, paragraphs 191-194.
7 Decision 24805-D02-2020: ATCO Electric Ltd., 2018-2019 General Tariff Application Compliance Filing, Proceeding 24805, August 12, 2020.
8 Exhibit 24964-X0621, paragraphs 339-340.
9 Decision 24805-D02-2020, paragraphs 203-204.

17. 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.

18. 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 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.[10] 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.

19. 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.

20. 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.

21. 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.[11] 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.

22. 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.

23. 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.[12] The changed economic circumstances since the Altus Group report was prepared reduce the weight that the Commission has placed on the report.

[10] Decision 22742-D01-2019, paragraphs 666-668.
[11] Proceeding 25663, Exhibit 25663-X0036.01, PDF page 235.
[12] Proceeding 25663, Exhibit 25663-X0103, CCA-AUC-2020OCT23-002, PDF pages 6-8.

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

25. 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.

26. 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.

27. 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."[13]

28. 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.

29. 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

30. 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.[14] 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.

31. In response to an information request (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 measurements of the building upon its completion, as well as to changes in head office subleased space.[15]

[13] Exhibit 24964-X0436, CCA evidence, paragraph 119.
[14] Proceeding 25282, Review and Variance of Decision 22742-D01-2019 Stage 2.
[15] Proceeding 25663, Exhibit 25663-X0086, AP-AUC-2020SEP10-011(a), PDF page 25.

32. ATCO Electric submitted that the allocation formula approved by the Stage 2 review panel in Decision 25282-D01-2020[16] to revise the head office square footage allocated to ATCO Electric and adjust for excess employee capacity at ATCO Park[17] creates a reasonable proxy for the determination of square footage, but the requested square footage of 122,049 should be approved as this figure is more precise.[18]

33. 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.[19]

Commission findings

34. 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.

35. 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)[20] 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.)[21] 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.

36. 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.

16 Decision 25282-D01-2020: ATCO Electric Ltd., Stage 2 Review and Variance of Decision 22742-D01-2019, Proceeding 25282, July 28, 2020.
17 Decision 25282-D01-2020, paragraph 111.
18 Exhibit 24964-X0535, AET rebuttal evidence, PDF page 38.
19 Exhibit 24964-X0436, CCA evidence, paragraph 163.
20 Decision 25282-D01-2020, paragraph 77.
21 Decision 25282-D01-2020, paragraph 111.

2.1.2 Shared services initiative

37. 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 and several other ATCO group entities[22] identified common shared services functions that provide standardized internal services to all of the ATCO group of entities on a cost recovery basis.[23] 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.[24] These methods include direct charging, using causal allocation factors, or using a general cost allocation formula.[25]

38. 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.

2.1.3 Shared services functions and allocators

39. Under the proposed shared services initiative, 14 functional groups are transitioned to the shared services model.[26] 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.

40. The allocation methodology proposed[27] by ATCO Pipelines and ATCO Electric for each of the 14 functional groups is set out in Table 3:

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22 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.

23 Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 494.

24 Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 522, and Proceeding 25663, Exhibit 25663-X0004, PDF page 22.

25 Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 510, and Proceeding 25663, Exhibit 25663-X0004, PDF page 16.

26 Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 493, and Proceeding 25663, Exhibit 25663-X0004, PDF page 1.

27 Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF pages 493-510, and Proceeding 25663, Exhibit 25663-X0004, PDF pages 1-16.

Table 3. Allocation methodologies for shared services functional groups

Functions	Allocation method
Supply Chain	General cost allocator (GCA)[28]
Financial Services – Regulated Accounting, Fixed Assets & Project Accounting	GCA (utilities only)
Financial Services - Other General Accounting Support	GCA
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 [information technology] assets
Innovation	GCA
IGRS	GCA

Source: Proceeding 25663, Exhibit 25663-X0004.

41. ATCO Pipelines and ATCO Electric each filed a third-party report from KPMG LLP 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.[29]

42. 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,[30] 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[31] as an allocator for corporate costs.[32]

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[28] The GCA allocator is based on an equal weighting of net revenues, total assets and labour expenses.

[29] Proceeding 25663, Exhibit 25663-X0004, PDF pages 17-41.

[30] Exhibit 24964-X0001.03, AET 2020-2022 GTA, PDF page 525, and Proceeding 25663, Exhibit 25663-X0004, PDF page 25.

[31] Decision 2013-111: The ATCO Utilities Corporate Costs, Proceeding 1920, Application 1608510-1, March 21, 2013.

[32] Exhibit 24964-X0252.02, AET Information Responses to AUC, IR responses AET-AUC-2019DEC16-020(a) and AET-AUC-2019DEC16-026(a)-(d).

43. 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.[33]

44. Further, relying on shared services cost trends provided by ATCO Electric in Proceeding 24964,[34] 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,[35] and that costs are increasing for regulated entities despite an overall reduction in work.[36] On that basis, the CCA argued that the GCA is not producing a just and reasonable allocation of costs.

45. For each functional group that uses the GCA as an allocator, 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,[37] the CCA submitted that an equal split gives more certainty that regulated entities are not subsidizing non-regulated entities.[38] 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.[39]

Commission findings

46. 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.

47. 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

33 Exhibit 24964-X0436, CCA evidence Part 1 - D. Madsen, A. Chau, paragraph 538, PDF page 216.
34 Exhibit 24964-X0573.03, AET Information Responses to CCA, IR responses AET-CCA-2020OCT09-047(a) and (b).
35 Exhibit 24964-X0609, CCA argument, paragraphs 679-687 and 693, PDF pages 216-219 and 221.
36 Exhibit 24964-X0609, CCA argument, paragraph 689, PDF page 220.
37 Exhibit 24964-X0609, CCA argument, paragraphs 694 and 702, PDF pages 221 and 224.
38 Exhibit 24964-X0609, CCA argument, paragraph 703, PDF page 224.
39 Exhibit 24964-X0609, CCA argument, paragraphs 695 and 703, PDF pages 221 and 224.

allocators for these five functional groups (as shown above in Table 3) for the 2020-2022 GTA period and the 2021-2023 GRA period.

48. For the nine shared services functional groups identified in Table 3 for which the GCA allocation methodology was proposed, the Commission accepts the GCA as a more appropriate 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.

49. 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 3), 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.

50. 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.

51. 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.

52. 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.

53. 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.

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

55. 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.

56. 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 3 above). In AET-AUC-2019DEC16-033,[40] 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[41] 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.

57. The third issue deals with deferral accounts. The CCA recommended that deferral account adjustments be included within net revenues for the GCA allocator,[42] and cited the Commission's findings in Decision 22742-D01-2019[43] 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 allocator.

58. 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.[44] However, the CCA submitted evidence showing that shared services employees may, either directly or indirectly, be providing services

40 Exhibit 24964-X0252.02, AET Responses to AUC IRs, IR response AET-AUC-2019DEC16-033.
41 Exhibit 24964-X0014, Attachment 25.1.2 - Shared Services Costs Allocation, Attachment 25.1.2 (Allocators).
42 Exhibit 24964-X0436, CCA evidence, paragraph 556.
43 Decision 22742-D01-2019: paragraphs 567-570, PDF pages 134-135.
44 Exhibit 24964-X0001.03, AET 2020-2022 GTA, paragraph 514, PDF page 443.

to Alberta PowerLine.[45] 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.

2.1.4 Shared services costs and FTEs

59. 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:[46]

Table 4. 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: Exhibit 24964-X0015.01, Total Costs by Functional Group, Attachment 25.1.3. For 2023 forecast: Proceeding 25663, Exhibit 25663-X0005, Section 4.2.4 Attachment 3, Excel worksheet tab "2023."

Table 5. 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: Exhibit 24964-X0015.01, Total Costs by Functional Group, Attachment 25.1.3. For 2023 forecast: Proceeding 25663, Exhibit 25663-X0004, Section 4.2.4 Attachments 1 & 2, PDF pages 4-15.

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45 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.

46 The Innovation function was created in 2020 and the IGRS function was created in 2019.

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

Table 6. 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: Proceeding 25663, Exhibit 25663-X0005.

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

Table 7. 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: Exhibit 24964-X0014.

62. ATCO Pipelines submitted that there are no differences between total dollar amounts for shared services in proceedings 25663 and 24964.[47]

63. 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[48] and 24964.[49]

Commission findings

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

65. 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."[50] 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.

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

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47 Proceeding 25663, Transcript, Volume 2, page 382.

48 Proceeding 25663, Exhibit 25663-X0103, CCA-AUC-2020OCT23-001, PDF pages 1-5.

49 Exhibit 24964-X0609, CCA argument, paragraphs 716-721, 723, 726, 734, 737, 740-745, 750, 754 and 761, PDF pages 227-238.

50 Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraphs 42, 45, 49, 61, 67 and 71, PDF pages 279-281, 285, 287-288.

Table 8. Shared services total cost trends (pre-allocation) with historical proxies for cost prior to the shared services initiative[51]

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

67. The Commission observes from Table 8 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.[52]

68. Additionally, ATCO Electric indicated that the proxies presented in Table 8 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.[53] The Commission also observes that the total (pre-allocated) shared services FTE forecasts provided by ATCO Electric in Exhibit 24964-X0573.03,[54] are different than the forecasts provided in Exhibit 24964-X0015.01.[55] The Commission agrees with the CCA's argument[56] 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 forecasts provided by ATCO Electric.

51 The Innovation function was created in 2020; years prior to 2020 in Table 8 represent proxy values for the Innovation function. Similarly, the IGRS function was created in 2019; years prior to 2019 in Table 8 represent proxy values for the IGRS function.

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

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

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

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

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

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

69. 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 5) 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 Exhibit 24964-X0345.01.[57]

70. 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 5) 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.

71. 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.

72. 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[58] 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*.[59] There are some government relations activities such as red-tape reduction, environment and industry standards changes that relate to regulated service,[60] but other activities included within "priority and cross-functional policy discussions, and providing support for businesses as required"[61] are less obviously related to regulated service. "Building and maintaining relationships with government representatives," 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, 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.

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

58 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 and Proceeding 25663, Exhibit 25663-X0125, AP rebuttal, paragraph 100.

59 SA 2007, c. L 20.5.

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

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

73. 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.

74. 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.

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

1. 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.

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

3. To not adjust its capitalization policy with respect to FTEs.

4. 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.).

76. With respect to the IT services function, ATCO Pipelines stated in evidence:[62]

> 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]

77. 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.

78. Finally, the Commission issued Direction 25 in Decision 23793-D01-2019.[63] 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.[64] The Commission notes that ATCO Electric complied with a similar direction

62 Proceeding 25663, Exhibit 25663-X0125, AP rebuttal evidence, paragraph 110.
63 Decision 23793-D01-2019, paragraph 318.
64 Proceeding 25663, Exhibit 25663-X0005.

in Proceeding 24964.[65] 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.

79. 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.

3 Order

80. It is hereby ordered that:

(1) ATCO Electric Ltd. shall file its 2020-2022 transmission general tariff application compliance filing to reflect the findings, conclusions and directions in this decision on a date to be confirmed by the Commission in Decision 24964-D02-2021.

Dated on March 1, 2021.

Alberta Utilities Commission

(original signed by)

Anne Michaud
Vice-Chair

(original signed by)

Kristi Sebalj
Commission Member

[65] Exhibit 24964-X0014, 00-Attachment 25.1.2 - Shared Services Costs & Allocation.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Electric Ltd. – Transmission (AET) Bennett Jones LLP
AltaLink Management Ltd. (AltaLink of AML)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP
Consumers' Coalition of Alberta (CCA)
Industrial Power Consumers Association of Alberta (IPCAA)
The City of Calgary (Calgary) McLennan Ross Barristers & Solicitors

Alberta Utilities Commission Commission panel A. Michaud, Vice-Chair K. Sebalj, Commission Member Commission staff J. Graham (Commission counsel) L. Mullen P. Baker D. Cherniwchan A. Corsi A. Starkov

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. 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 29

2. 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 53

3. 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 55

4. 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 3 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 56

5. 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 allocator. .... paragraph 57

6. 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 58

7. 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 5) 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 Exhibit 24964-X0345.01. .... paragraph 69

8. 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 5) 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 70

9. 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 74

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

    1. 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.

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

    3. To not adjust its capitalization policy with respect to FTEs.

    4. 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 75

11. 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 77

12. 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 78