ATCO Electric Ltd.

2020-2022 Transmission General Tariff Application

March 19, 2021

Alberta Utilities Commission
Decision 24964-D02-2021
ATCO Electric Ltd.
2020-2022 Transmission General Tariff Application
Proceeding 24964

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1 Decision summary

1. This decision reflects the Alberta Utilities Commission's determinations following its review of the 2020-2022 transmission general tariff application of ATCO Electric Ltd. The Commission has determined that not all of the forecast revenue requirements for the 2020-2022 test period were reasonable and has consequently revised or denied the following components of the revenue requirement:

- Head office rent costs as determined in Decision 24964-D01-2021[1]
- Shared services costs as determined in Decision 24964-D01-2021
- The number of full-time equivalents and the vacancy rate
- Certain inflation rates for in-scope and out-of-scope labour, "other" and contractors
- Costs of long-term debt and preferred shares
- Provincial corporate tax rate for 2020
- Mid-Term Incentive Program costs
- Certain depreciation parameters
- Costs of the Wildfire Mitigation and Grid Resiliency Program
- Costs of the Central East Transfer Out Project

2. The Commission has denied ATCO Electric's request to allow for an I-X escalation mechanism for the years 2023-2024.

3. The Commission has approved ATCO Electric's existing deferral accounts, including:

- International Financial Reporting Standards
- defined benefit pension plan funding
- taxes other than income

[1] Decision 24964-D01-2021: ATCO Electric Ltd., 2020-2022 Transmission General Tariff Application, Proceeding 24964, March 1, 2021.

- right-of-way payments
- income tax capital repair costs and deductible capital cost deferral accounts
- direct assigned capital
- debenture rate

4. The Commission has approved ATCO Electric's continuation of the existing reserve for injuries and damages and rate case reserve accounts, and has directed that the vegetation management reserve account continue to be maintained. The Commission has directed changes to ATCO Electric's Variable Pay Program reserve account.

5. The Commission has determined that ATCO Electric has complied with a number of directions contained in its 2018-2019 GTA decision,[2] and other related decisions, as identified in Appendix 4 of this decision. The Commission approved ATCO Electric's continued use of its terms and conditions of service, as filed.[3]

6. The Commission has accepted ATCO Electric's forecasts of capital additions on direct assigned projects (excluding the Central East Transfer Out Project), capital maintenance projects (excluding the Wildfire Mitigation and Grid Resiliency Program) and general property, plant and equipment projects.

7. The Commission requires ATCO Electric to submit a compliance filing with respect to its 2020-2022 transmission general tariff application by April 19, 2021.

2 Introduction to application

8. On October 3, 2019, ATCO Electric filed an application for its 2020-2022 general tariff application (GTA) in which it requested the following specific relief:[4]

- Revenue requirement for the 2020-2022 test period.
- The ability to advance an application to establish 2023 and 2024 revenue requirements by escalating the 2022 approved revenue requirement.
- The continued use of deferral accounts, reserve accounts and placeholders as identified in its application.
- Approval of updated depreciation parameters as supported by a depreciation study.
- Approval under Section 27(1) of the *Isolated Generating Units and Customer Choice Regulation* (IGUCCR) for the replacement and addition of certain isolated generating units.

[2] Decision 22742-D01-2019: ATCO Electric Ltd., 2018-2019 Transmission General Tariff Application, Proceeding 22742, July 4, 2019.
[3] Exhibit 24964-X0026, Appendix 3 – Terms and conditions.
[4] Exhibit 24964-X0001.03, application update, paragraph 71, PDF pages 64-65.

9. The breakdown of the 2020-2022 revenue requirements and other forecast costs, as shown in the three tables that follow, reflect ATCO Electric's September 28, 2020, application update for material impacts (application update), including any impacts of the COVID-19 pandemic and economic downturn.[5]

10. As shown in Table 1 below, the revenue requirements show an annual increase of 4.7 per cent in 2020, (0.7) per cent in 2021 and 1.9 per cent in 2022.

Table 1. Comparison of revenue requirements for 2019-2022

Description	2019 Actual	Test period		
		2020	2021	2022
	($ million)			
Revenues				
Transmission tariffs	691.9	724.2	718.8	732.2
Deferral accounts	(6.0)	-	-	-
Total revenues	685.9	724.2	718.8	732.2
Costs				
Fuel	5.5	4.0	3.5	3.4
Operating costs	160.2	163.6	158.7	163.9
Depreciation	188.5	226.5	228.7	235.6
Return on rate base	320.1	309.1	303.0	303.7
Income tax expense	38.3	40.0	38.5	40.2
Revenue offsets	(26.8)	(19.1)	(13.6)	(14.7)
Total costs	685.9	724.2	718.8	732.2
Transmission tariffs		724.2	718.8	732.2
Revenue at existing rates		691.9	691.9	691.9
Increase		32.3	26.9	40.3
% cumulative increase		4.7%	3.9%	5.8%
% annual increase		4.7%	(0.7)%	1.9%

Source: Exhibit 24964-X0002.03, Schedule 3-1 Revenues and Costs.

11. A summary of forecast capital expenditures and capital additions for the test period is as follows:

[5] Exhibit 24964-X0001.03, application update, PDF page 2.

Table 2. Forecast capital expenditures and additions for test period

	2020 Forecast		2021 Forecast		2022 Forecast	
	Expenditures	Additions	Expenditures	Additions	Expenditures	Additions
	($ million)					
Direct assign - system	14.0	2.5	111.5	-	116.0	114.0
Direct assign - customer	81.9	20.3	71.3	148.0	56.8	33.5
Capital maintenance	94.3	77.9	100.0	82.5	87.1	128.9
Telecommunication	15.5	10.4	16.3	14.6	17.0	23.4
Supervisory control and data acquisition (SCADA)/EMS	2.7	2.7	2.5	2.5	2.6	2.6
Isolated generation	12.6	11.0	17.0	17.1	8.5	13.2
Wildfire mitigation and grid resiliency	9.0	8.4	19.1	16.6	24.2	27.3
Direct general property, plant and equipment (PP&E)	8.6	8.5	6.4	6.4	7.5	7.5
Buildings	1.4	1.4	0.3	0.3	0.3	0.3
Software	11.7	14.5	11.9	14.2	5.4	5.7
Net salvage		(16.0)		(8.5)		(22.0)
Total	**251.7**	**141.6**	**356.3**	**293.7**	**325.4**	**334.4**

Source: Exhibit 24964-X0002.03, Schedule 10-4 Transmission Capital Expenditures.

12. ATCO Electric requested Commission approval of additional opening rate base additions of approximately $0.7 million above the amounts forecast in its 2018-2019 GTA, as shown below:

Table 3. Summary of opening rate base additions from 2018-2019 GTA forecast

Category	2018-2019 GTA forecast additions (Decision 24805-D01-2020)	2018-2019 actual additions	Variance in additions to rate base
	($ million)		
Transmission Capital Maintenance	213.8	226.3	12.5
Transmission Isolated Generation	15.2	9.0	(6.2)
Direct General Property and Equipment	9.1	3.5	(5.6)
Total	**238.1**	**238.8**	**0.7**

Source: Exhibit 24805-X0005.02, Schedule 10-4 Transmission Capital Expenditures and Exhibit 24964-X0002.03, Schedule 10-4 Transmission Capital Expenditures.

13. The Commission assigned Proceeding 24964 to the application and provided notice of the application to parties on its eFiling System on October 4, 2019. Statements of intent to participate (SIPs) were due on October 7, 2019.

14. The Commission received SIPs from the following parties:

- AltaLink Management Ltd.
- Office of the Utilities Consumer Advocate (UCA)
- Consumers' Coalition of Alberta (CCA)
- Industrial Power Consumers Association of Alberta (IPCAA)
- The City of Calgary

15. Calgary, the CCA and the UCA actively participated in the proceeding. IPCAA's participation was limited to filing information requests (IRs), and AltaLink was not actively involved in testing the application. Parties that registered as interveners for this proceeding are listed in Appendix 1 to this decision.

16. A detailed chronology of the process steps that occurred during Proceeding 24964 is provided in Appendix 2 to this decision. The Commission considers the record for Proceeding 24964 to have closed on December 21, 2020.

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

18. This decision deals with the contentious cost items forecast in the application, including updates, and any matters that the Commission has otherwise determined are required to be specifically addressed. Contentious cost items may include those identified on the final issues list. If a matter included in ATCO Electric's application is not specifically addressed in this decision, it is because the Commission finds the applied-for costs associated with the matter to be reasonable, and therefore approves them for the purposes of this GTA decision. All directions in this decision and Decision 24964-D01-2021 are subject to all findings and other directions made elsewhere in these decisions.

3 Commission comments on process and efficiency initiatives

19. In Bulletin 2019-18,[6] the Commission identified that certain measures aimed at increasing regulatory efficiency would be implemented in Proceeding 24964. The Commission accordingly incorporated several process changes in pursuit of a more streamlined approach, including defining the scope of the proceeding through the use of an issues list; issuing AUC IRs before other parties so as to reduce intervener IRs, counsel-to-counsel calls to address administrative, procedural and other issues; the use of technical meetings; requiring parties to seek resolution on deficiencies in IR responses prior to filing a motion; concerted efforts by the Commission to issue rulings more expeditiously; and proceeding with a fully written proceeding.

20. The Commission appreciates that, for the most part, parties participated in these initiatives in good faith, and considers that the implementation of the various changes generally improved regulatory efficiency in this proceeding. However, there were instances where parties' actions contributed to a delay in processing time that the Commission did not consider efficient.

21. For example, while ATCO Electric submitted its application on October 3, 2019, with a request that the Commission consider certain regulatory efficiencies and for a procedural schedule that allowed for its GTA to be processed in approximately 12 months, from the outset,

[6] Bulletin 2019-18, Regulatory burden reduction, AUC roundtable report and next steps, October 18, 2019, page 4.

and in many instances, ATCO Electric was not prepared to collaborate in the implementation of certain process efficiencies.

22. On many occasions the Commission was required to reiterate its directions numerous times before it secured ATCO Electric's compliance. This was the case for Commission directions on ATCO Electric's shared services initiative,[7] the reporting of labour resources using FTE versus headcount,[8] its 2019 application update,[9] and Commission directions related to the submission of agreed-to IR responses.[10] ATCO Electric's disregard for clear Commission directions for these four items alone took two months, 5.5 months, 3.5 months and two weeks, respectively, to fully resolve.

23. Also concerning to the Commission were instances where the CCA sought a Commission ruling for further and better responses for IRs where the Commission had previously denied an equivalent motion. This was the case for the CCA's February 21, 2020, motion[11] and subsequent ruling, in which the Commission indicated that for 30 of the IR responses at issue, there had been both a previous motion and a previous ruling.[12]

24. As noted in Bulletin 2019-18, it is important that all participants in the Commission's regulatory process adapt to the changes being implemented in order to effect real progress toward increasing regulatory efficiency.

4 Responses to previous Commission directions

25. In its application, ATCO Electric responded to five outstanding directions and Other Matter No. 9 from Decision 20272-D01-2016[13] in respect of ATCO Electric's 2015-2017 transmission GTA; one direction from Decision 20514-D02-2019[14] in respect of the ATCO

[7] Exhibit 24964-X0001, ATCO Electric's response to Decision 22742-D01-2019, Direction 26, PDF page 80; Exhibit 24964-X0156, AUC letter – Initial process schedule, November 4, 2019, paragraphs 9-17.

[8] Exhibit 24964-X0184, AUC letter – Direction on FTE-related IRs, January 17, 2020, paragraphs 7, 9 and 11; Exhibit 24964-X0335, AUC letter – Process schedule update and other matters, March 11, 2020, paragraph 15; Exhibit 24964-X0350, AUC letter – ATCO Electric responses to Commission IRs – headcount and FTE, April 23, 2020, paragraphs 5 and 17.

[9] Exhibit 24964-X0346, AUC letter – Ruling on issues list and updated process schedule, April 17, 2020, paragraph 43; Exhibit 24964-X0426, AUC letter – Ruling on Calgary and CCA motions, July 16, 2020, paragraphs 14-17.

[10] Exhibit 24964-X05591, AUC letter – Ruling on motion for further and better IR responses and process schedule, November 5, 2020, paragraph 6; Exhibit 24964-X0594, AUC letter – Ruling on November 6, 2020 submissions of ATCO Electric Ltd., November 9, 2020, paragraph 4; Exhibit 24964-X0595, AET's Letter - AUC Ruling on AET's Nov. 6, 2020 Submission, November 10, 2020; Exhibit 24964-X0599, AUC letter - Ruling on November 10, 2020, request by ATCO Electric Ltd for additional process, November 12, 2020.

[11] Exhibit 24964-X0326, CCA motion, Appendix A.

[12] Exhibit 24964-X0349, AUC Appendix A – Ruling on the CCA motion, April 21, 2020. The Commission indicated at AET-CCA-2019DEC16-014(c) that "This IR was the subject of a previous motion and Commission ruling (Exhibit 24964-X0201)." This response was further referenced in an additional 29 IRs where the Commission stated: "Please refer to the comments provided at AET-CCA2019DEC16-014(c) for background on the previous motion and Commission ruling with respect to this IR."

[13] Decision 20272-D01-2016: ATCO Electric Ltd., 2015-2017 Transmission General Tariff Application, Proceeding 20272, August 22, 2016.

[14] Decision 20514-D02-2019: The ATCO Utilities (ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd.), Information Technology Common Matters Proceeding, Proceeding 20514, June 5, 2019.

Utilities IT common matters proceeding; and one direction from Decision 22859-D01-2018[15] regarding the ATCO Electric common group compliance filing. It also responded to nine directions issued in Decision 22742-D01-2019 pertaining to ATCO Electric's 2018-2019 transmission GTA, and one direction issued in Decision 24805-D01-2020 pertaining to ATCO Electric's 2018-2019 transmission GTA compliance filing.

26. The Commission finds that ATCO Electric has substantively complied with the following directions, and that no further action by ATCO Electric is required. Additional information on these directions is provided in Appendix 4 of this decision:

- Directions 18, 21, 27, 96, 97 and Other Matter No. 9 from Decision 20272-D01-2016;
- Direction 1 from Decision 20514-D02-2019;
- Direction 1 from Decision 22859-D01-2018;
- Directions 9,[16] 15, 18, 22, 23, 24, 26, 27 and 47 from Decision 22742-D01-2019; and
- Direction 1 from Decision 24805-D01-2020.

27. Those directions for which the Commission has found that ATCO Electric's responses warrant further discussion are: directions 21 and 27 from Decision 20272-D01-2016; and directions 9, 26, 27 from Decision 22742-D01-2019. These directions are discussed in the relevant section of the decision to which the direction pertains.

5 Placeholder amounts and amounts deferred to compliance filing

28. At the time of the release of this decision, ATCO Electric's consolidated filing (Proceeding 26264 - second compliance filing) to Decision 22742-D01-2019 addressing the determination and approval of its 2018-2019 revenue requirement has not been finalized. As such, determinations related to certain issues and revenue requirement impacts are yet to be finalized.

29. In the current proceeding ATCO Electric has not requested placeholder treatment for directions 20 and 37 and paragraph 91 from Decision 22742-D01-2019. ATCO Electric stated that it intends to incorporate any necessary adjustments into its compliance filing (directions 20 and 37)[17] or has finalized its placeholder (paragraph 91)[18] in the current application. However,

[15] Decision 22859-D01-2018: ATCO Electric Ltd., Transmission Common Group Compliance Filing, Proceeding 22859, March 20, 2018.

[16] In Exhibit 24964-X0001.03, application update, ATCO Electric identified this as Direction 4 (of Decision 22742-D01-2019) on PDF page 90, whereas the correct reference is to Direction 9 as shown on PDF page 125.

[17] Exhibit 24964-X0567.01, AET-AUC-2020OCT09-001, PDF pages 1-4. Note that in its IR response ATCO Electric had attributed these directions to Decision 24805-D02-2020.

[18] Exhibit 24964-X0001.03, application update, PDF pages 28-29: In its application update ATCO Electric removed a previous placeholder amount for 2019 Severance Costs (paragraph 91, Decision 22742-D01-2019) stating that it had taken guidance from the Commission in paragraph 101 in Decision 24805-D02-2020 and finalized its placeholder for 2019 severance costs in the current application.

ATCO Electric did request placeholder treatment for Direction 9[19] from Decision 22742-D01-2019.

30. The Commission notes ATCO Electric's confirmation of errors or omissions in its application and its commitment to correct them in its compliance filing. For example, paragraphs 180, 210, 228, 391 and 476 of ATCO Electric's argument identified items that it intends to correct in its compliance filing.[20] The Commission accepts this proposal and requests that ATCO Electric prepare and incorporate a table summarizing all such adjustments into its compliance filing and cross-reference where the related costs and information are noted in the current application.

6 Key assumptions

6.1 Labour

31. In this section the Commission examines internal full-time equivalents (FTEs), FTEs allocated to ATCO Electric via the head office and common group allocators, and the associated vacancy rates. The Commission's findings on ATCO Electric's shared services FTEs were set out in Decision 24964-D01-2021.

6.1.1 Common group FTE allocators

32. ATCO Electric requested approval to transition 18 functions to the common group model.[21] For each new common group function, ATCO Electric proposed a methodology to allocate FTEs and costs between ATCO Electric Transmission and ATCO Electric Distribution. Those functions, and the associated allocation methodologies, are summarized in the table below:

Table 4. ATCO Electric – new common group functions

Common group	Allocation method
Field Health & Safety	Average % of net revenues, net PP&E and labour
Service Operators Director	Average % of net revenues, net PP&E and labour
Work Methods & Training	Number of employees for each division
Field Services	Number of employees for each division
Strategic Projects	Analysis of expenditures – capital expenditures
Geospatial	Analysis of expenditures – capital expenditures
Project Execution	Analysis of expenditures – capital expenditures
Land Administration & Environment	Analysis of land parcels acquired & searched
Operations Planning	Analysis of headcount
Transmission Planning	Analysis of headcount
Regional Planning	Analysis of headcount
Operations (Wood Buffalo)	Analysis of headcount
Operations (Northwest)	Analysis of headcount
Operations (Technical Services)	Analysis of headcount
Service Operation Centres	Analysis of service work desk hours
Asset management	Analysis of expenditures – capital maintenance

[19] Exhibit 24964-X0001.03, application update, PDF page 60: In its application update ATCO Electric stated it included a placeholder for its "VPP Reserve – Account Mechanics."

[20] Exhibit 24964-X0614, AET argument. As other examples, please see Exhibit 24964-X0185.07, PDF page 394, and Exhibit 24964-X0144, PDF page 41.

[21] Exhibit 24964-X0001.03, application update, paragraph 556, PDF page 548.

Common group	Allocation method
Tool crib	Analysis of expenditures – direct general PP&E & buildings
Metering	Analysis of meter and load settlement costs

Source: Exhibit 24964-X0001.03, application update, Table 27.4 – New Common Groups, PDF page 549.

33. To support its proposed allocation methodologies, ATCO Electric filed a common group study[22] in which it outlined relevant Commission decisions[23] and general principles that were used to determine an appropriate allocation methodology for each new common group function; described the various allocators; described the services and benefits that each function will provide to ATCO Electric after its transition to the common group model; and provided justification for why its proposed allocators are appropriate, for each function.

34. In evidence submitted on behalf of the CCA, Dustin Madsen identified concerns with the inherent inaccuracies that exist when FTEs and costs are allocated to each entity via an allocation methodology, as opposed to direct charging.[24] However, the CCA subsequently clarified that it had no specific concerns with any of the allocators used by ATCO Electric in this proceeding, given prior Commission approval of allocation methodologies.[25]

35. The Commission is satisfied that the allocation methodologies proposed by ATCO Electric for the 18 functions identified above in Table 4 are reasonable. Specifically, the Commission finds that the allocator proposed by ATCO Electric for the field health and safety and the service operations director functions are consistent with the common group allocators that were previously approved by the Commission in Decision 22742-D01-2019. The Commission finds that the services provided by each of the remaining 16 functional groups identified in Table 4 are reasonably linked to, or driven by, their respective proposed causal allocator.

36. While the Commission acknowledges that some degree of inaccuracy is inherent when costs and FTEs are allocated via an allocation methodology, the Commission also considers that the use of allocators can be a more cost-efficient alternative because it eliminates some of the administratively burdensome tasks associated with direct charging[26] (e.g., employees save costs by not having to track the amount of time that they devote to each task, for each ATCO Electric entity).[27] The Commission also acknowledges that the common group model has the potential to create benefits, such as taking advantage of economies of scale; improving efficiency through operational synergies; productivity improvements; implementing best practices; standardizing processes; sharing resources; and consolidating institutional knowledge.[28]

37. For the above reasons, the Commission approves the allocators identified in Table 4.

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22 Exhibit 24964-X0001.03, application update, Attachment 27.2, PDF pages 555-582.

23 Decision 2010-447: ATCO Utilities, Corporate Cost Allocation Methodology, Proceeding 306, September 20, 2010, Decision 2013-111: ATCO Utilities, Corporate Costs, March 21, 2013 and Decision 22742-D01-2019: ATCO Electric Ltd., 2018-2019 Transmission General Tariff Application, Proceeding 22742, July 4, 2019.

24 Exhibit 24964-X0436, CCA evidence Part 1, paragraph 273, PDF page 110.

25 Exhibit 24964-X0464, CCA Information Responses to AUC, IR response CCA-AUC-2020AUG28-019.

26 Exhibit 24964-X0573.03, AET Information Responses to CCA 001 to 049, IR response AET-CCA-2020OCT09-024(c).

27 Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 29, PDF page 125.

28 Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 30, PDF page 125.

6.1.2 Full-time equivalents

38. ATCO Electric stated that its FTE forecast was developed using the previously approved activity-based forecasting methodology.[29] In its September 2020 update, ATCO Electric advised that it would not update the FTE forecasts provided in its original application, as there was no change in the FTE resources required to complete the activities forecast in this test period.[30] A summary of ATCO Electric's FTE forecast is provided below:

Table 5. ATCO Electric – actual and forecast FTEs

Schedule	Description	2019 Forecast	2019 Actual	Test period		
				2020	2021	2022
Schedule 5-5	2019 GTA complement - 2020-2022 GTA forecast – total	557.0	545.8	570.2	578.7	578.5
	Vacancy (negative) indicates higher complement than applied for	13.9	24.5	14.3	14.5	14.5
	Final adjusted complement	543.0	521.3	556.0	564.2	564.0
	Vacancy rate	2.5%	4.5%	2.5%	2.5%	2.5%
Schedule 25-5	2019 GTA complement - 2020-2022 GTA forecast – total	125.8	139.6	126.2	126.1	126.1
	Vacancy (negative) indicates higher complement than applied for	3.1	24.2	3.2	3.2	3.2
	Final adjusted complement	122.6	115.4	123.0	122.9	122.9
	Vacancy rate	2.5%	17.3%	2.5%	2.5%	2.5%
Total	2019 GTA complement - 2020-2022 GTA forecast – total	682.8	685.4	696.4	704.8	704.6
	Vacancy (negative) indicates higher complement than applied for	17	48.7	17.5	17.7	17.7
	Final adjusted complement	665.6	636.7	679	687.1	686.9
	Vacancy rate	2.5%	7.1%	2.5%	2.5%	2.5%
	Final adjusted complement by area					
	Total O&M	230.1	222.5	248.1	252.6	251.8
	Capital	435.6	414.2	430.9	434.6	435.1

Source: Exhibit 24964-X0002, GTA Schedules, Schedule 5-5 and Schedule 25-5 for 2019 forecast FTEs and Exhibit 24964-X0002.03, GTA Schedules, Schedule 5-5 and Schedule 25-5 for 2019 actual to 2022 forecast FTEs.

39. In response to a Commission IR,[31] ATCO Electric provided detailed FTE listings on an actual basis for each of 2017, 2018 and 2019; an approved basis for 2019; and on a forecast basis for each of 2019, 2020, 2021 and 2022. In that listing, ATCO Electric linked each FTE back to a reference company, a functional group, a position name and a uniform system of account (USA), and identified the split between O&M and capital for each FTE.[32]

[29] Exhibit 24964-X0001.03, application update, paragraph 60, PDF page 62.
[30] Exhibit 24964-X0001.03, application update, paragraphs 17-20, PDF pages 11-12.
[31] Exhibit 24964-X0185.07, AET Responses to AUC November Information Requests, IR response AET-AUC-2019NOV25-010.
[32] Exhibit 24964-X0344.02, AET-AUC-2019NOV25-010(a) REVISED April 1, 2020 Attachment 2, Excel worksheet tab IR Response FTE.

40. Referring to Table 5 above, the Commission observes that the final adjusted FTE complements (adjusted for the vacancy rate) on an actual basis for 2019 and on a forecast basis for 2019-2022, correspond to ATCO Electric's FTE totals from the detailed FTE listing, for those same years.[33]

41. Table 5 also shows that in the originally filed minimum filing requirement (MFR) schedules,[34] ATCO Electric forecast an additional 12.9 transmission FTEs and 0.4 corporate FTEs in 2020, relative to its 2019 forecast transmission and corporate FTE complement of 665.6 FTEs. These additional 13.3 FTEs would bring ATCO Electric's combined forecast FTE complement for 2020 to a total of 679.0 FTEs.

42. On May 19, 2020, ATCO Electric updated schedules[35] 5-5.1 and 25-5.1 to reflect 2019 actual results. After this update, ATCO Electric forecast that an additional 34.7 transmission FTEs and 7.6 corporate FTEs were required in 2020, which is 42.3 FTEs above its 2019 actual transmission and corporate FTE complement of 636.7 FTEs according to Table 5 above.

43. Included in the updated forecast of 42.3 additional FTEs are 32.6 FTEs that ATCO Electric indicated are required due to "Differences between forecast and actual." These additional 42.3 FTEs would bring ATCO Electric's combined forecast FTE complement for 2020 to 679.0, which is the same number of FTEs originally forecast and applied for.

44. The changes between ATCO Electric's submissions are illustrated in the following table:

Table 6. Schedule of transmission and corporate labour additions to complement – FTEs as applied for and updated for 2019 actual results

	Transmission FTEs	Corporate FTEs	Combined FTEs
2020 FTE forecast as applied for:			
2019 Forecast FTEs			
2019 forecast average FTE complement	543.0	122.6	665.6
Incremental FTE forecast for 2020 including full year impact of 2019 additions – permanent resources (7.0+2.7)	12.9	0.4	13.4
Total 2020 forecast average FTE complement and vacancy	**555.9**	**123.0**	**679.0**
2020 FTE forecast after update for 2019 actuals:			
2019 Actual FTEs – as updated for actuals			
2019 actual average FTE complement	521.3	115.4	636.7
Differences between forecast and actual – permanent resources (17.0+5.5) and (4.9+6.3)	22.5	11.2	
Differences between forecast and actual – temporary resources (-2.5+5.0) and (-2.3-1.4)	2.5	(3.6)	
Subtotal of FTEs attributed to differences between 2019 forecast and actual	25.0	7.6	32.6
Incremental FTE forecast for 2020 including full year impact of 2019 additions – permanent resources (7.0+2.7)	9.7	-	
Subtotal of forecast incremental FTE additions	9.7	-	9.7

[33] Exhibit 24964-X0344.02, AET-AUC-2019NOV25-010(a) REVISED April 1, 2020 Attachment 2, Excel worksheet tab IR Response FTE, row 4310, columns 61, 90, 104, 118.
[34] Exhibit 24964-X0002, GTA Schedules, schedules 5-5.1 and 25-5.1.
[35] Exhibit 24964-X0002.03, GTA Schedules, schedules 5-5.1 and 25-5.1.

	Transmission FTEs	Corporate FTEs	Combined FTEs
Total increase in FTEs	34.7	7.6	42.3
Total 2020 forecast average FTE complement and vacancy	**556.0**	**123.0**	**679.0**

Source: Information extracted from Exhibit 24964-X0002.03, GTA Schedules, Schedule 5-5.1 (transmission) and Schedule 25-5.1 (corporate).

45. ATCO Electric explained that the total FTE addition forecast under the "Differences between forecast and actual" job class/position, which equates to 32.6 FTEs, is primarily comprised of various shifts that occurred throughout 2019, including changes in workload, retirements, voluntary departures, involuntary departures, promotions, transfers, personal leaves and new hires, and advised that these FTEs remain necessary in this test period, above its 2019 actual FTE complement.[36]

46. The CCA argued that ATCO Electric did not sufficiently support its 2020 FTE forecast on the basis of 32.6 additional FTEs in the "Differences between forecast and actual" job class/position.[37] In the CCA's view, ATCO Electric failed to provide detailed evidence to explain why its 2019 actual FTEs of 636.7 are significantly lower than its 2019 forecast FTEs of 665.6 (a difference of 28.9 FTEs), nor did it explain why 32.6 additional FTEs are necessary in this test period, relative to 2019 actual levels, for it to provide safe and reliable service to ratepayers.[38]

47. In its rebuttal evidence, ATCO Electric maintained that the difference between 2019 actual and forecast FTEs is primarily driven by workload shifts that occurred throughout 2019,[39] and that 2019 actual FTEs were abnormally low and not sustainable.[40] ATCO Electric explained that these workload shifts are often not sustainable in the long run, because other staff need to pick up any excessive workloads or defer less critical work while their colleagues are away.[41] Accordingly, ATCO Electric argued that these FTEs ("Differences between forecast and actual") are still necessary in the test period to complete the forecast aggregate body of work.

48. Further, ATCO Electric submitted that the additional 32.6 FTEs being requested as "Differences between forecast and actual" are necessary to fill vacancies that existed on an actual basis in 2019 (ATCO Electric indicated that its 2019 actual FTEs were abnormally low, because of an atypically high voluntary turnover rate and the inability to fill all of its vacancies before the end of 2019), and that they are not related to eliminated positions.[42] ATCO Electric advised that it expects to successfully fill these vacancies in this test period.[43]

[36] Exhibit 24964-X0374.01, AET Information Responses to AUC, IR response AET-AUC-2020MAY29-047.
[37] Exhibit 24964-X0436, CCA evidence Part 1, paragraphs 283-286, PDF pages 114-116.
[38] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 293, PDF page 118.
[39] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 23, PDF pages 122-123.
[40] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 51, PDF page 135.
[41] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 24, PDF page 123.
[42] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR response AET-AUC-2020OCT08-036.
[43] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR response AET-AUC-2020OCT08-033(c).

Commission findings

FTE complement – FTEs identified as "Differences between forecast and actual"

49. ATCO Electric forecast that an additional 32.6 FTEs are necessary in this test period on account of the "Differences between forecast and actual" job class/position. For the reasons set out below, the Commission is not persuaded that these requested additions are reasonable.

50. While ATCO Electric submitted[44] that the addition was primarily driven by workload shifts, which it described as including retirements, voluntary departures, involuntary departures, promotions, terminations and transfers, the Commission considers that merely identifying these factors is insufficient to justify the addition of a material number of FTEs (32.6). Rather, the Commission finds that more targeted evidence is necessary to specifically support why the addition of a significant number of FTE additions is required in this test period, relative to ATCO Electric's 2019 actual FTE complement, for ATCO Electric to continue providing safe and reliable service to Alberta customers.

51. Further, the Commission is not persuaded by ATCO Electric's submission that it will successfully fill its actual vacancies from 2019 (which ATCO Electric stated would be offset by the FTE additions attributable to the "Differences between forecast and actual" job class/position) in the test period. In response to a Commission IR[45] asking ATCO Electric to provide a list of all positions (from the detailed FTE listing) that were vacant in 2020 or have remained vacant to October 2020, ATCO Electric responded that 190 positions were vacant at some point in 2020, which equates to 30.1 FTEs; ATCO Electric is actively recruiting another 34 positions, which equate to 3.3 FTEs (if filled as of October 31, 2020); and ATCO Electric currently has 37 active new positions in 2020 that were not contemplated or included in the detailed FTE listing, which equated to 6.9 FTEs as of October 26, 2020.

52. The Commission used this information (which the Commission considers is the most up-to-date information filed on ATCO Electric's 2020 FTE complement) to determine that ATCO Electric could have up to 60.8 vacant FTEs as of December 31, 2020:

- ATCO Electric forecast a total of 696.4 FTEs will be necessary in 2020 (Table 5). After factoring in ATCO Electric's requested vacancy rate of 2.5 per cent, ATCO Electric's total adjusted 2020 FTE complement is 679 FTEs (17.5 FTEs are forecast to be vacant in 2020), which corresponds to the 2020 forecast FTE total from the detailed FTE listing.[46]

- Using this detailed FTE listing, ATCO Electric identified 30.1 FTEs that were vacant sometime in 2020, or have remained vacant up to October 19, 2020.[47]

[44] Exhibit 24964-X0374.01, AET Information Responses to AUC, IR response AET-AUC-2020MAY29-047, Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-035, and Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 23, PDF pages 122-123.

[45] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-035.

[46] Exhibit 24964-X0344.02, AET-AUC-2019NOV25-010(a) REVISED April 1, 2020 Attachment 2, Excel worksheet tab IR Response FTE, row 4310, column 90.

[47] Exhibit 24964-X0569, AET-AUC-2020OCT08-035 Attachment 1.

- As the CCA pointed out, if those 30.1 vacant FTEs are pro-rated to December 31, 2020, the number of vacant FTEs in 2020 would be 43.3 FTEs.[48]

- From this, the Commission observes that, at a minimum, ATCO Electric has a total of 47.6 (17.5 + 30.1) vacant FTEs in 2020 (using data strictly from the detailed FTE listing), which corresponds to an adjusted FTE complement of 648.8 (696.4 – 47.6).

- If the pro-rated vacancies are used (to December 31, 2020), 60.8 (17.5 + 43.3) FTEs are vacant in 2020, which corresponds to an adjusted FTE complement of 635.6 (assuming no further FTE additions or reductions in 2020, past October 19, 2020).

53. The Commission considers that 60.8 vacant FTEs is a large number of vacancies. Given this, and the difficulties that ATCO Electric has reportedly encountered in filling vacant positions during the COVID-19 pandemic,[49] the Commission finds that it is not realistic for ATCO Electric to expect that it will be able to fill its actual vacancies from 2019, in 2020, via the "Differences between forecast and actual" FTE additions (32.6 FTEs) forecast for 2020.

54. For the reasons identified above, the Commission does not consider it reasonable to approve ATCO Electric's requested "Differences between forecast and actual" FTE additions (32.6 FTEs) for 2020.

55. The Commission also observes, from its determinations in paragraph 52, that ATCO Electric's FTE complement has remained stable since 2019 (using October 2020 vacancies pro-rated to December 31, 2020, ATCO Electric's adjusted 2020 FTE complement of 635.6 is comparable to ATCO Electric's 2019 actual FTE complement of 636.7). Moreover, ATCO Electric has, for the second consecutive year, provided safe and reliable service to Alberta customers at an FTE complement of approximately 636.7. In that regard, the Commission considers that ATCO Electric has not sufficiently justified that a similar FTE complement cannot adequately perform these activities throughout the entire test period.

56. In light of the uncertainty surrounding the COVID-19 pandemic, the limited evidence filed by ATCO Electric to support the "Differences between forecast and actual" FTE additions as necessary to continue the provision of safe and reliable service to Alberta customers, and the significant number of vacant positions that ATCO Electric has reported relative to its 2020 forecast FTE complement, the Commission does not consider it reasonable to approve ATCO Electric's requested 32.6 "Differences between forecast and actual" FTE additions for 2021 and 2022.

57. Lastly, ATCO Electric submitted that as of October 26, 2020, it had 37 active new positions in 2020 that were not contemplated or included in its detailed FTE listing (these positions equated to 6.9 FTEs year-to-date, and are incremental to ATCO Electric's original forecast 2020 FTE complement).[50] ATCO Electric explained that these FTEs reflect vacant positions that were repurposed, are not being replaced with like-for-like positions, and that these positions have been filled.[51] The Commission finds that ATCO Electric did not adequately justify why these FTE additions are necessary, in this test period, to continue the provision of safe and

[48] Exhibit 24964-X0609, CCA argument, paragraph 392, PDF page 127.
[49] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-035.
[50] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR response AET-AUC-2020OCT08-035.
[51] Exhibit 24964-X0621, AET reply argument, paragraph 99, PDF page 38.

reliable service to Alberta customers. Specifically, the Commission did not receive information on what position titles are associated with those FTEs, to what reference companies and functional groups those positions belong, and what activities are driving the need for those additional FTEs. The Commission considers that such evidence, at a minimum, is required in the circumstances to justify the applied-for positions. Accordingly, the Commission finds that ATCO Electric has failed to justify that the 37 positions referenced above, and their associated FTE additions, are necessary in this test period.

58. The Commission consequently directs ATCO Electric to use its internal[52] 2019 actual FTEs as the approved base level FTE complement for all test years. This base level of FTEs is a starting point for 2020 that will be adjusted as a result of the Commission's findings on incremental FTEs proposed by ATCO Electric in each of the test years. Incremental FTE additions and reallocations are discussed below.

59. For the FTEs allocated to ATCO Electric Transmission via the common group allocators, the Commission directs ATCO Electric, for each common group function, to use 2019 actual FTEs as the approved total pre-allocated common group base level FTE complement for all test years, and to then allocate these total pre-allocated common group FTE complements (and the associated costs) in accordance with the approved common group allocators.

60. For the FTEs allocated to ATCO Electric Transmission via the head office allocator, the Commission directs ATCO Electric to use 2019 actual FTEs as the approved total pre-allocated head office base level FTE complement for all test years, and to then allocate this total pre-allocated head office complement (and the associated costs) in accordance with the approved head office allocator.

FTE complement – incremental FTE additions and reallocations

61. Notwithstanding the findings above, the Commission has examined the evidence and finds that ATCO Electric has provided sufficient justification for its forecast incremental FTE additions and reallocations for 2020-2022 above its approved 2020 base level of FTEs.

62. In particular, the Commission finds ATCO Electric's incremental additions of 3.7 capital and 6.1 O&M FTEs in 2020, 5.0 capital and 3.4 O&M FTEs in 2021 and 1.5 capital FTEs in 2022 to be reasonable and approves them. These findings are detailed in the following table.[53]

Table 7. Commission-approved incremental FTE additions and reductions[54]

	2020		2021		2022	
Position	**Capital**	**O&M**	**Capital**	**O&M**	**Capital**	**O&M**
Capital Programs Engineer	0.8	0.2	0.8	0.2	-	-
Communication Technologist, Entry	-	0.4	0.0	0.4	-	-

[52] FTEs internal to ATCO Electric Transmission that are not allocated to ATCO Electric Transmission via common groups, shared services and head office.

[53] Exhibit 24964-X0002.03, GTA Schedules, line numbers 4-17 of Schedule 5-5.1, line numbers 6-18 and 33 of Schedule 5-5.2 and line number 6 of Schedule 5-5.3.

[54] Exhibit 24964-X0001, application, Table 5.3, PDF page 152; Exhibit 24964-X0001, application, sections 5.2.2, 5.3.2 and 5.3.8; Exhibit 24964-X0002.03, GTA Schedules, Schedule 5-5.1; Exhibit 24964-X0185.07, AET Responses to AUC November Information Requests, IR responses AET-AUC-2019NOV25-018 and AET-AUC-2019NOV25-021; and Exhibit 24964-X0269.05, AET Information Responses to CCA December 16 Requests, IR response AET-CCA-2019DEC16-007(c).

	2020		2021		2022	
Position	**Capital**	**O&M**	**Capital**	**O&M**	**Capital**	**O&M**
Environmental Advisor	0.4	0.4	0.3	0.2	-	-
IT Support	0.4	0.2	0.4	0.2	-	-
Project Manager	1.0	-	2.5	-	1.5	-
Real Time Analyst	0.4	0.6	0.4	0.6	-	-
Scheduler	-	0.4	-	0.4	-	-
System Operator	-	0.6	(0.1)	0.1	-	-
Tool Crib	0.2	0.2	0.2	0.2	-	-
CIP Analyst	-	1.0	-	-	-	-
CIP Engineer	-	1.0	-	-	-	-
CIP Supervisor	-	0.5	-	0.5	-	-
CIP Clerk	-	0.5	-	0.5	-	-
Planner, Environment & Land	0.5	0.1	0.5	0.1	-	-
Total	**3.7**	**6.1**	**5.0**	**3.4**	**1.5**	**-**

Source: Extracted from Exhibit 24964-X0002.03, GTA Schedules, Schedule 5-5.1, Schedule 5-5.2 and Schedule 5-5.3 for 2020, 2021 and 2022 FTE additions, respectively.

63. The Commission also finds ATCO Electric's request to reallocate the FTEs identified in Table 5.3 of its application from capital work to O&M work (i.e., the FTEs listed as "Re-allocation from capital work") to be reasonable and approves them, with the exception[55] of the 3.0 wildfire mitigation FTEs listed under 2021 in Table 5.3 of the application, because ATCO Electric indicated that these were in error in Table 5.3.[56]

64. These findings are described in more detail in the following table:

Table 8. Commission-approved FTE reallocations from capital work

Driver	FTEs reallocated from capital work		
	2020	**2021**	**2022**
Innovation initiatives (Research & Development)	2.0	-	-
Increased engineering activities	0.8	-	-
Increased ARS compliance activity	0.6	0.6	-
Increased workload associated with PRC-005	9.0	-	-
Wildfire mitigation	3.0	-	-
Total	**15.4**	**0.6**	

Source: Extracted from Exhibit 24964-X0001, application, Table 5.3, PDF page 152, and Exhibit 24964-X0185.07, AET Responses to AUC November Information Requests, IR responses AET-AUC-2019NOV25-019.

6.1.3 Vacancy rates

65. In its original application, ATCO Electric provided a vacancy forecast of 2.5 per cent for each test year.[57] In its September 2020 update, ATCO Electric submitted that its applied-for staffing levels are still in line with its original forecasts; its FTE complement will remain reasonably stable over the test period; it will be able to fill vacancies in a timely manner; and that job security in Alberta's current economic climate will contribute to lower voluntary turnovers.[58]

55 Exhibit 24964-X0001, application, Table 5.3, PDF page 152.
56 Exhibit 24964-X0185.07, AET Responses to AUC November IRs, AET-AUC-2019NOV25-019(a).
57 Exhibit 24964-X0001, application, PDF page 19.
58 Exhibit 24964-X0001.03, application update, PDF page 55.

Accordingly, ATCO Electric submitted that a vacancy rate of 2.5 per cent would be maintained during the test period.

66. The CCA submitted that ATCO Electric's actual vacancy rates are consistently higher than forecast, and pointed out that in 2019, actual vacancy rates for transmission and corporate staff were 4.5 per cent and 17.3 per cent, respectively.[59] Furthermore, the CCA argued that a higher vacancy rate is necessary in the test period, given the current economic instability in Alberta. The CCA recommended a five per cent vacancy rate be approved for all test years.

67. In rebuttal, ATCO Electric contended that vacancy rates should reflect any workforce changes that it expects to encounter during a test period.[60] In that regard, ATCO Electric explained that its historical vacancy rates are a product of material changes that occurred in those test periods, including workforce reductions, workforce restructurings and employee turnovers. In contrast, ATCO Electric submitted that, as a result of the right-sizing measures undertaken in 2018 and 2019, it is not forecasting any material restructuring or workforce reductions in this test period, and that it anticipates to fill all voluntary turnover and retirement-related vacancies from 2019 in the test period.[61] Accordingly, ATCO Electric argued that its vacancy rate forecast of 2.5 per cent is reasonable, and that historical vacancy rates have no bearing on future ones.[62]

68. Given the stability of ATCO Electric's FTE complement over the last two years, and the relatively low number of approved FTE additions (as shown in Table 7) the Commission finds that a vacancy rate of zero per cent is reasonable in the circumstances, and accordingly directs ATCO Electric to apply a vacancy rate of zero per cent to its approved FTE complement, for all test years.

69. ATCO Electric is directed to reflect the directions contained within the entirety of sections 6.1.1 to 6.1.3 in its compliance filing. The Commission further directs AET not to offset the impacts of a reduction to capital FTEs with an increase in contractor costs.

6.1.4 Labour reporting

6.1.4.1 FTE versus headcount method

70. In a workshop held on January 13, 2020, ATCO Electric proposed to replace the established FTE method for reporting labour requirements to a new headcount method it developed.[63] It submitted that its proposed headcount method is preferable to the FTE method, for the following reasons: ATCO Electric manages its operations using headcount; its HR system workforce reports use headcount; its witnesses are much better positioned to respond to questions on workload using headcount as a measure; and ATCO Electric has to manually determine FTEs for regulatory applications and for purposes of reporting actuals, which it argued is an extremely cumbersome, time-intensive process that is prone to error.[64] ATCO Electric also

[59] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 298, PDF page 120, and Exhibit 24964-X0464, CCA Information Responses to AUC, IR response CCA-AUC-2020AUG28-020.
[60] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 1, PDF page 136.
[61] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 2, PDF page 137.
[62] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 5, PDF pages 137-138.
[63] Exhibit 24964-X0185.07, AET Responses to AUC November Information Requests, IR response AET-AUC-2019NOV25-010(a), Attachment 1, pages 3-4.
[64] Exhibit 24964-X0185.07, AET Responses to AUC November Information Requests, IR response AET-AUC-2019NOV25-010(a), Attachment 1, Appendix 1-A, pages 3-4.

argued that the headcount method would reduce some of the complexities that, in its opinion, exist when workload is analyzed via the FTE method.

71. Shortly after this workshop, ATCO Electric filed a report that listed its labour requirements using the proposed headcount methodology.[65] This report included the following fields, on which it further elaborated in its User Guide:[66]

- "Unallocated ATCO Electric HC" (headcount), where each unique person who is employed at the time of the report (December 31 of the year) is identified as a 1.0.

- "AET Final Allocation %," which is the weighted average of the allocation percentages for engineering, supervision and general (ES&G), O&M and direct capital costs.

- "Allocated AET [ATCO Electric Transmission] HC," which is ATCO Electric's allocated headcount after all direct charging, common group allocations (if applicable) and shared services allocations (if applicable) are applied to the unallocated headcount. This is calculated by multiplying the "Unallocated ATCO Electric HC" by the "AET Final Allocation %" (the two fields listed above).

- "AET Direct Capital %," "AET ES&G % (or indirect capital)," "AET O&M %" and "AET Revenue Offset %," which are used to determine the allocation of work completed. Each of these percentages are multiplied by the "Allocated AET HC" in order to determine the headcount attributable to each category (i.e., capital work, O&M work, etc.).

72. When asked to clarify how ATCO Electric would report "Unallocated ATCO Electric HC" for a full time employee that was hired on September 30 in any particular year, and was still employed on December 31 of that same year, ATCO Electric explained[67] that the employee would be reported as 1.0 headcount, and that there would be differences in how this particular employee would be reported under the headcount method, when compared to the established FTE method. However, ATCO Electric submitted that the differences between the two methods would occur in offsetting directions when turnovers occur, and provided the following table to demonstrate the differences between headcount and FTEs under the identified scenario:

Table 9. Differences between headcount method and FTE method – full-time employee

Full-time employee	Headcount	FTE	Difference
Employee hired Sept. 30; still employed Dec. 31	1.0	0.25	0.75
Previous employee departed Sept. 30; worked Jan 1 to Sept. 30	0.0	0.75	(0.75)
Total	**1.0**	**1.0**	**0.0**

Source: Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(b).

73. When asked to clarify how ATCO Electric would report "Unallocated ATCO Electric HC" for a part time employee that was hired on June 30 in any particular year, and was still employed on December 31 of that same year, ATCO Electric explained[68] that the employee

[65] Exhibit 24964-X0247.01, AET-AUC-2019NOV25-010(a), Attachment 1, Appendix 1-B.
[66] Exhibit 24964-X0185.07, AET Responses to AUC November Information Requests, IR response AET-AUC-2019NOV25-010(a), Attachment 1.
[67] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(b).
[68] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(i).

would be reported as 0.5 headcount. ATCO Electric once again clarified that there would be differences in how this particular employee would be reported under the headcount method, when compared to the FTE method, and that these differences would occur in offsetting directions when turnovers occur:

Table 10. Differences between headcount method and FTE method – part-time employee

Part-time (50%) employee	Headcount	FTE	Difference
Employee hired June 30; still employed Dec. 31	0.5	0.25	0.25
Previous employee departed June 30; worked Jan 1 to June 30	0.0	0.25	(0.25)
Total	**0.5**	**0.5**	**0.0**

Source: Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(i).

74. Furthermore, when asked to clarify how ATCO Electric determined the percentages for ES&G, O&M, direct capital and revenue offsets, and to further elaborate on how ATCO Electric weighed each of ES&G, O&M, direct capital and revenue offsets to determine the "AET Final Allocation %," (which is multiplied by the "Unallocated ATCO Electric HC" to calculate the "Allocated AET HC"), ATCO Electric provided the following responses:

> (d-e) AET forecasts the organizational splits (AED/AET) and functional splits (O&M / ES&G / Direct Capital / Revenue Offsets) for each individual employee.…[69]
>
> (g) The AET Final Allocation % is representative of the amount of time employees spent or are forecast to spend on AET activities. If employees direct charge, it is the percentage of time direct charged; if employees are allocated, it is the percentage of time allocated.…[70]
>
> (h) The headcount vs FTE approach has no impact on how the AET Final Allocation % or the functional splits are determined, nor does it impact how AET prepares its forecast.[71]
>
> (j-k) AET confirms that the proposed headcount gives each employee the same AET allocations and O&M/ES&G/Direct Capital/Revenue Offsets splits as the FTE approach. Headcount as compared to FTE does not impact the proportionate amount of time an employee spends on AET O&M or AET capital activities. In other words, an employee who spends 60% of their time on AET Capital and 40% of their time on AET O&M does so regardless of whether they were hired on July 1 and are represented as a 1.0 HC vs a 0.5 FTE.[72]

Commission findings

75. For the reasons that follow, the Commission finds that ATCO Electric's proposed headcount method is not a reasonable alternative to the established FTE method, for labour reporting purposes.

[69] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(d)-(e).
[70] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(g).
[71] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(h).
[72] Exhibit 24964-X0567.01, AET Information Responses to AUC, IR AET-AUC-2020OCT08-034(j)-k).

76. ATCO Electric's proposed headcount method makes it difficult for the Commission to meaningfully discern how much time an employee worked at ATCO Electric throughout any particular year.

77. As an example, as demonstrated in Table 9 above, when a full-time employee is hired on September 30 of any particular year, and is still employed by December 31 of that same year, the headcount methodology reports an "Unallocated ATCO Electric HC" of 1.0, whereas the FTE method reports an FTE of 0.25. The Commission finds that an FTE of 0.25 more accurately reflects the amount of time (three months) that this particular employee is expected to work, whereas a headcount of 1.0 provides no insight into how much time that employee worked throughout the year, and could be misconstrued as an employee who worked all 12 months of that year.

78. As a second example, ATCO Electric demonstrated in Table 9 that an employee who worked from January 1 of any particular year, but departed ATCO Electric in September 30 of that same year, would not be reported under ATCO Electric's proposed headcount method (i.e., a headcount of zero). The Commission is again concerned that ATCO Electric's proposed headcount method provides no insight into how much time that employee would have worked throughout that particular year, or whether that employee was even employed by ATCO Electric. It would likewise be difficult to determine if a position was vacant throughout any particular year, and for what portion of time that position was vacant, because every position will ultimately be reported as a headcount of 1.0 if it is filled and remains so on December 31.

79. Furthermore, while ATCO Electric reassured the Commission that the "AET Final Allocation %" is designed to reflect the amount of time that an employee ("Unallocated ATCO Electric HC") spent, or is forecast to spend, working at ATCO Electric throughout any particular year, ATCO Electric provided limited insight into which mechanisms are being used in the "AET Final Allocation %" to produce such time/workload percentages for each employee. As such, it is unclear to the Commission which mechanisms are being used to produce a time/workload estimate via the "AET Final Allocation %" that accurately reflects the amount of time that an employee spent, or is forecast to spend, working at ATCO Electric throughout any particular year. The Commission considers that such time/workload considerations are already built into the established FTE method and that as a result, there is limited value in replacing the FTE method with ATCO Electric's proposed headcount method, which uses the "AET Final Allocation %" as a proxy for time/workload.

80. In light of this issue with accurately reporting the amount of time that an employee spent, or is forecast to spend, working at ATCO Electric throughout any particular year, the Commission is also concerned that the use of ATCO Electric's proposed headcount method could potentially create a disconnect between the activities that ATCO Electric forecasts to complete in a test period, the number of labour hours necessary to complete those activities in that test period, and how ATCO Electric ultimately reports the labour requirements necessary to fill those labour hours via its proposed headcount methodology. This could create a further disconnect with the labour dollar forecasts necessary for those forecast activities. The Commission considers that such concerns are not present in the established FTE method.

81. The Commission also notes that the use of FTEs for labour reporting is an established standard for all utilities in Alberta, and finds that ATCO Electric's proposed headcount method would limit the Commission's ability to compare labour requirements between utilities.

82. Given the ambiguity as to whether the "AET Final Allocation %" is an accurate proxy for an employee's time/workload, the potential for a disconnect to exist between ATCO Electric's forecast activities and its headcount reports, and the comparability limitations with other utilities, the Commission does not accept ATCO Electric's request to report its labour requirements via the proposed headcount method. It accordingly directs ATCO Electric to continue providing its labour requirements and labour reports via the established and long-standing FTE method.

6.1.4.2 Detailed FTE listing

83. Throughout this proceeding, ATCO Electric maintained that the detailed FTE listing provided in Exhibit 24964-X0344.02[73] was too burdensome to prepare, and argued that the level of detail provided in this listing was unhelpful.[74] ATCO Electric submitted that it should not be required to provide FTE information at such a granular level on a go-forward basis, and requested the opportunity to continue working with the Commission to develop a concise labour report that would provide a reasonable level of information for the Commission to review ATCO Electric's labour forecasts.[75]

Commission findings

84. The Commission remains interested in exploring alternative formats to the detailed FTE listing provided in Exhibit 24964-X0344.02. Accordingly, if ATCO Electric wishes to propose an alternative format for the detailed FTE listing, the Commission considers it would be best accomplished via a technical meeting held between Commission staff, ATCO Electric and the interveners. Such a technical meeting should be held at least six months prior to filing ATCO Electric's next GTA. However, any new format proposed by ATCO Electric must use the established FTE method for labour reporting.

6.1.5 Severance costs

85. In Proceeding 22742, ATCO Electric sought to recover severance costs included in the 2018-2019 test years related to workforce reductions. In Decision 22742-D01-2019, the Commission included the following determination related to the next GTA:[76]

> 91. In response to Undertaking 53, AET updated, for positions severed or forecast to be severed, the years of service based on ATCO company information. For positions #134 to #155, AET did not provide the years of service, as they were forecast to be eliminated during 2019, and numbers were not available at the close of record. AET forecast $1.5 million of severance for those positions in 2019. Given the above findings, the Commission approves AET's 2019 severance costs of $1.5 million on a placeholder basis. The placeholder amount is limited to the 22 positions identified by AET in Undertaking 53 and Undertaking 54 (exhibits 22742-X0697 to 22742-X0700), which are forecast to be eliminated in 2019. The Commission will review the historical service years within ATCO companies to determine the final approved amounts in AET's next GTA.

[73] Exhibit 24964-X0344.02, AET-AUC-2019NOV25-010(a) REVISED April 1, 2020, Attachment 2.
[74] Exhibit 24964-X0535, AET rebuttal evidence, paragraph 49, PDF page 134.
[75] Exhibit 24964-X0535, AET rebuttal evidence, paragraph 50, PDF page 134.
[76] Decision 22742-D01-2019, Section 5.1.3 Severance costs, paragraph 91, PDF page 31.

86. In Decision 24805-D02-2020, issued on August 12, 2020, the Commission provided the following related direction with regard to the Commission determination from Proceeding 22742 shown above:[77]

> 106. Consistent with this guidance and the reconciliation of the placeholder amount, the Commission will determine the final amounts of the placeholder in AET's next GTA. Given that the two additional positions included in Table 4[78] were originally included in Proceeding 22742, and for the purposes of the consolidated filing, the Commission limits the placeholder amount to 24 positions, with the associated severance costs of $1.5 million.

87. In the current application, which relates to 2020-2022, ATCO Electric forecast severance costs of $0.4 million for each year of the test period, with $0.3 million included under USA 920 (Corporate Administration and General – General Administration) related to "normal course of operations," and an additional $0.1 million for corporate head office severance costs in USA 930.2 (Corporate Administration and General – Miscellaneous General Expenses). ATCO Electric confirmed that none of the severance costs are forecast to be capitalized[79] and advised, in its application update, that its forecast for severance costs has not changed from its original forecast.[80]

88. The CCA challenged the need for ATCO Electric's forecast $0.4 million of severance costs across the 2020-2022 test years, and recommended a reduction of $0.2 million for each test year based upon historical spending levels and the significant staffing reductions that had already occurred by 2019.[81]

89. ATCO Electric responded that severance calculations take into consideration multiple factors such as the level of the employee within the company, years of service, age, and loss of benefits, which can result in significant differences in severance amounts between individuals.[82]

90. In finalizing its 2019 severance placeholder of $1.5 million for 24 terminated positions in 2019, ATCO Electric filed work history information[83] from 2004 to 2018, which it said was used to allocate 2019 severance costs based on the total average hours of transmission services.[84] [85]

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77 Decision 22742-D01-2019, Section 5.1.3 Severance costs, paragraph 91, PDF page 31.

78 Decision 24805-D02-2020, Section 6.1.4, Table 4 - 2019 severed employees ATCO Electric Ltd. positions that directly charged time to AET projects for duties performed for which AET was not allocated any severance in Proceeding 22742, PDF page 25.

79 Exhibit 24964-X0185.07, IR response AET-AUC-2019NOV25-036, PDF pages 286-287.

80 Exhibit 24964-X0001.03, application update, paragraph 20, PDF page 12.

81 Exhibit 24964-X0436, CCA evidence Part 1, paragraph 355. PDF page 144.

82 Exhibit 24964-X0535, AET rebuttal evidence, paragraph 5, PDF page 152.

83 Exhibit 24964-X0001.03, application update, Attachment 25-2, Note 1, PDF page 543: "… AET queried the work history of the severed employees in the Oracle system to determine the cost center and, where applicable, applied a common group allocator to the time worked by that employee if the cost center belonged to a common group at that time. When an employee was not recording their time in a common group cost center, AET performed a secondary query to determine the specific projects the employee recorded time to. If the project began with a 'Dx', the time was appropriately attributed to AED [ATCO Electric Distribution], if the project began with a 'Tx', the time was appropriately attributed to AET."

84 Exhibit 24964-X0001.03, application update, paragraph 58, PDF page 29.

85 Exhibit 24964-X0001.03, application update, Attachment 25-2, 2019 Severance Attributable to AET, PDF page 542.

91. In addition, ATCO Electric quantified the portion of allocated severance costs attributable to providing affiliate services and removed the calculated amount from the applied-for severance costs,[86] resulting in a revised amount for 2019 severance costs attributable to ATCO Electric Transmission of $1.983 million.[87]

92. Concerning ATCO Electric's 2019 severance cost placeholder, the CCA submitted that ATCO Electric should be directed to calculate 2019 severance costs in the same manner as approved for 2018 in Decision 24805-D02-2020 for reasons of consistency.[88]

Commission findings

93. The Commission is not persuaded by the CCA's recommended disallowance of $0.2 million for each test year because the proposed reduction is immaterial. Further, the Commission accepts ATCO Electric's explanation of the variability of severance costs experienced by year and by individual. Accordingly, the Commission approves the forecast severance costs as filed for the test years as reasonable.

94. The severance calculations for 2019 costs were provided by ATCO Electric in its application update. Upon review of Attachment 25-2 prepared by ATCO Electric to determine the 2019 severance costs attributable to transmission, the Commission observes that 24 positions are included in the placeholder-related information: two that represent the additional positions allowed by Decision 24805-D02-2020, and 22 positions that were included in the placeholder established in Decision 22742-D01-2019. ATCO Electric could not provide years of service information during the course of Proceeding 22742 because the positions to be severed were provided on a forecast basis and the actual information was therefore not available at the close of record.

95. Attachment 25-2 lists the 24 positions and summarizes how the severance attributable to ATCO Electric was derived based on average hours worked for transmission for the period of years including 2004-2018. ATCO Electric has provided a comprehensive work history encompassing the period 2004-2018 in this application which was used to calculate the average years of service (or time spent providing transmission services by the severed positions) to support the applied-for 2019 severance costs to be recovered in transmission rates.

96. In Decision 24805-D02-2020, the Commission approved the following methodology for ATCO Electric's 2018 severance costs:

> 101. The Commission also finds that it is consistent with the purpose of a compliance filing, as stated in Decision 22166-D01-2017, to accept the information provided by AET in Table 3 on the positions severed from other ATCO companies that had historically provided service to AET as this gives effect to the "interrelated impact" of the Commission's findings in Direction 5. The Commission finds that AET's additional information conforms with the Commission's intent in Direction 5, namely, for AET to recalculate its "2018 severance costs based on the proportion of years of service each severed position provided to the transmission function."

[86] Exhibit 24964-X0001.03, application update, paragraph 58, PDF page 29.
[87] Exhibit 24964-X0001.03, application update, Attachment 25-2 2019 Severance Attributable to AET, PDF page 542.
[88] Exhibit 24964-X0619, CCA reply argument, paragraph 99, PDF page 30.

97. The Commission observes that the methodology approved in Decision 24805-D02-2020 was based on the proportion of years of service from 2014 to 2018, that each severed employee provided to the transmission function. In contrast, in the current application, ATCO Electric has both revised the methodology, which is now based on average of years of service rather than a proportion, and has provided comprehensive 2004-2018 work history data to allocate severance. The Commission finds that this method reasonably supports the relationship between the work performed for the transmission function by an employee and the allocation of severance costs associated with that employee to ATCO Electric Transmission.

98. For the above reasons, the Commission finds that ATCO Electric's 2019 severance costs of $1,983,118 attributable to ATCO Electric Transmission are reasonable and approves them, as filed.

6.2 Inflation for in-scope labour

99. ATCO Electric applied for in-scope labour rate increases of 2.25 per cent in 2020 and 2.75 per cent in each of 2021 and 2022. These rates reflect the overall average increases for employees belonging to the Canadian Energy Workers Association (CEWA). Discussions between ATCO Electric and CEWA, which concluded in December 2019, resulted in binding arbitration wage increases of 2.50 per cent for 2020 and 2.65 per cent for 2021. ATCO Electric did not update the in-scope labour rate increases in its application update because, in its view, the imposed rates were not materially different than the inflation rates originally forecast.[89]

100. While the CCA recommended a zero per cent in-scope labour escalation rate for each of the test years, 2020, 2021 and 2022, it submitted it would accept inflation rates of 2.25 per cent in 2020, 2.65 per cent in 2021 and zero per cent in 2022.[90] The CCA's rationale is that although ATCO Electric's labour inflation rates are on par with other utilities, ATCO Electric's in-scope rate increases have consistently outpaced average wages in all other sectors.[91] Further, Alberta has been in a recession since 2015 and third-party forecasts indicate that Alberta's economic recovery will be "long and arduous."[92]

101. ATCO Electric submitted that contrary to the views of the CCA, its applied-for in-scope wage increases are reasonable, given the findings of the binding arbitration that its wage settlements are comparable to those of other Alberta utilities and that the economic forecasts by third parties predict recovery by the end of 2021.[93]

Commission findings

102. The Commission acknowledges that ATCO Electric's 2020 and 2021 in-scope labour increases were set through binding arbitration. However, the Commission observes that actual wage settlements in 2020 and 2021 for other utilities, excluding the ATCO Utilities, are, on average, 1.90 per cent and 1.75 per cent, respectively. AltaLink's United Utility Workers' Association wage settlements for 2020 and 2021 were 1.00 per cent and 1.50 per cent,

89 Exhibit 24964-X0001.03, application update, paragraphs 23-24, PDF pages 52-53.
90 Exhibit 24964-X0609, CCA argument, paragraphs 306 and 334, PDF pages 99 and 107.
91 Exhibit 24964-X0609, CCA argument, paragraphs 314-315, Table 20, PDF page 102.
92 Exhibit 24964-X0609, CCA argument, paragraphs 310 and 325, PDF pages 101 and 105.
93 Exhibit 24964-X0614, AET argument, paragraphs 83-86, PDF pages 31-32.

respectively. Similarly, ENMAX's International Brotherhood of Electrical Workers settlements were 1.50 per cent and 2.00 per cent.[94]

103. Given the 2020 and 2021 wage settlements of other Alberta utilities and the uncertainty surrounding the COVID-19 pandemic, the Commission finds that increases of 1.90 per cent in 2020 and 1.75 per cent in 2021 for in-scope employees are in line with the average wage settlements of Alberta utilities for the same time periods and are reasonable in the current circumstances. For these reasons, the Commission approves in-scope labour inflation rates of 1.90 per cent for 2020 and 1.75 per cent for 2021. ATCO Electric is directed to incorporate these rates in its compliance filing.

104. ATCO Electric has not yet negotiated any wage increase for 2022. As support for its applied-for inflation rate of 2.75 per cent for 2022, ATCO Electric noted that the utility average for 2021 is currently 1.99 per cent, and based on economic forecasts provided by RBC, TD and the National Bank of Canada, economic recovery is expected by the end of 2021. Given that 2022 inflation rates will be influenced by wage increases negotiated by other utilities and the indication that the economy will recover in 2022, ATCO Electric submitted that the CCA's proposal of a zero per cent increase is unreasonable.[95]

105. The Commission agrees that the CCA's proposal is unreasonable; however, given the difficulty in predicting the economic impact of the COVID-19 pandemic, the Commission finds that a reasonable wage increase should be more in step with current economic conditions in Alberta, relative to the applied-for 2.75 per cent. Specifically, the Commission finds a 1.8 per cent increase for 2022, which is the average of the approved 2020 and 2021 inflation rates, to be reasonable in the circumstances, as it is at a level closer to the in-scope labour inflation rates approved above for 2020 and 2021. The Commission consequently denies the requested 2.75 per cent labour inflation increase requested by ATCO Electric, and approves a 1.8 per cent in-scope labour inflation rate for 2022. ATCO Electric is directed to incorporate this rate in its compliance filing.

6.3 Inflation for out-of-scope labour

106. ATCO Electric forecast out-of-scope labour escalation rate increases of 2.90 per cent for 2020 and 2.85 per cent for each of 2021 and 2022. ATCO Electric based its forecast on the midpoint of the salary escalation projections made by Mercer Canada Limited on September 27, 2019. ATCO Electric noted that given the pandemic and oil crisis, as of October 2020, it had not awarded escalation increases to out-of-scope employees. The Mercer report, updated on June 10, 2020, projected increases of 1.8 per cent for 2020, 0.8 per cent to 1.2 per cent for 2021 and 1.8 per cent to 2.2 per cent for 2022, taking into account the current economic climate. ATCO Electric did not update its forecast in its application update, because in its view, the updated projections did not materially impact its forecast labour costs.[96]

107. ATCO Electric does not specifically refer to executive compensation in its forecast of out-of-scope labour escalation rates. Based on IR responses from ATCO Electric, the CCA

[94] Exhibit 24964-X0024.01, Appendix 1-C, PDF page 45.
[95] Exhibit 24964-X0614, AET argument, paragraph 86, PDF page 32.
[96] Exhibit 24964-X0001.03, application update, paragraphs 25-26, PDF pages 53-54; Exhibit 24964-X0024.01, Appendix 1-A, PDF page 12; Exhibit 24964-X0573.03, AET-CCA-2020OCT09-003(a), PDF page 12.

calculated salary increases for embedded and corporate office executives[97] and presented the results in argument. The results showed that the inflation rates were comparable to those forecast for out-of-scope employees in general. Subsequent to this conclusion made in argument, the CCA discussed out-of-scope compensation and continued its argument for executives and non-executive employees in the aggregate.[98]

108. According to the CCA's evidence, RBC provided economic indicators showing that inflation rates in Alberta are expected to be low (0.1 per cent in 2020 and 1.2 per cent in 2021).[99] These forecast inflation rates, coupled with the decreasing cost of housing in Alberta and the "unprecedented economic crisis" that, in the CCA's view, is not expected to improve significantly in 2022, led the CCA to recommend that the Commission approve no out-of-scope escalation increases for the test period.[100]

109. ATCO Electric submitted that the evidentiary analysis supporting its applied-for out-of-scope wage increases is superior to the CCA's analysis and the basis for its proposed zero per cent increases. ATCO Electric stated that in addition to the economic climate, it takes company performance, the ability to recruit, turnover, and employee satisfaction into account to determine a reasonable out-of-scope wage escalation. ATCO Electric asserted that if it does not provide a base salary increase to its employees, its compensation will not be competitive when compared to its peer group. It noted in this regard that the data showed that its peer group has awarded salary escalations in 2020 and is projected to do so in 2021 and 2022, and that this is supported by credible sources' forecasts that the economy will rebound in 2021, along with salary escalations.[101]

Commission findings

110. While ATCO Electric indicated that its out-of-scope labour inflation rate forecast of 2.90 per cent for 2020 is representative of economic conditions in Alberta, it also indicated that it had decided to hold off on awarding increases[102] due to the pandemic and the oil crisis. In light of this, the Commission finds a zero per cent inflation rate to be reasonable for 2020 for all out-of-scope employees, including executives.

111. The Commission is not persuaded that the current Alberta economic climate supports an out-of-scope labour escalation rate of 2.85 per cent in each of 2021 and 2022, nor is it convinced that the CCA's recommendations are reasonable. The Commission observes that the Mercer report shows base salaries for ATCO Electric's leadership, professional and business support employees are six per cent above, four per cent below and 27 per cent above the market median, respectively, with an average at the median.[103] ATCO Electric indicated that to remain competitive, it targets the median as it relates to total compensation.[104] Given that the Mercer report analysis shows that base salaries are at the median overall, and that ATCO Electric has the ability to use its discretion in deciding whether to give salary increases across different positions

[97] The CCA calculated increases of 2.93%, 2.71% and 2.91% in 2020, 2021 and 2022, respectively, for embedded executives and 2.88%, 2.91% and 3.01% in 2020, 2021 and 2022, respectively, for corporate office executives.
[98] Exhibit 24964-X0609, CCA argument, paragraphs 293-294, PDF pages 94-95.
[99] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 200, Table 23, PDF page 80.
[100] Exhibit 24964-X0609, CCA argument, paragraphs 335 and 367, PDF pages 108 and 119.
[101] Exhibit 24964-X0614, AET argument, paragraphs 60-72, PDF pages 25-28.
[102] Exhibit 24964-X0573.03, AET-CCA-2020OCT09-003(a), PDF page 12.
[103] Exhibit 24964-X0024.01, Appendix 1-B, PDF page 17.
[104] Exhibit 24964-X0614, AET argument, paragraph 60, PDF page 25.

in its organization to remain competitive, the Commission finds out-of-scope labour inflation rates in 2021 and 2022 that are less than those applied for by ATCO Electric to be reasonable.

112. The updated Mercer report projected increases of 0.8 per cent to 1.2 per cent for 2021 and 1.8 per cent to 2.2 per cent for 2022. The Commission finds that out-of-scope labour escalation rates, for both non-executive and executive out-of-scope employees, of 0.8 per cent for 2021 and 1.8 per cent for 2022, which are at the low end of Mercer's projected ranges better reflect the updated projections, the uncertainty surrounding the pandemic, and the speed of Alberta's recovery after the pandemic.

113. Accordingly, the Commission approves out-of-scope labour inflation rates of zero per cent for 2020, 0.8 per cent for 2021 and 1.8 per cent for 2022. ATCO Electric is directed to incorporate these rates for its non-executive and executive employees in its compliance filing. ATCO Electric is also directed to clearly show how the approved rates are incorporated for its executive employees, similar to the calculation provided by the CCA in its argument.

6.4 Inflation for "other" and contractors

114. ATCO Electric applied for "other" inflation rates of 1.9 per cent, 1.8 per cent and 2.0 per cent in 2020, 2021 and 2022, respectively. These rates are based on an average of the Alberta CPI forecast percentage change published in 2019 from a number of government and financial institutions for 2020, two institutions for 2021 and one institution for 2022.[105] In response to an IR from the CCA, ATCO Electric updated the CPI forecast change for 2020 (1.2 per cent) and 2021 (1.5 per cent) based on data published by two institutions.[106]

115. ATCO Electric applied for contractor inflation rates of 2.0 per cent in each of 2020 and 2021 and 2.2 per cent in 2022. It forecast the contractor inflation rate using a composite of its "other" inflation rate and its labour inflation rate, incorporating both its in-scope and out-of-scope rates.[107]

Commission findings

116. ATCO Electric indicated that the methodology for both the "other" and contractor inflation rates is consistent with the methodology used in previous GTAs.[108] However, given the uncertainty regarding the economic impacts of the pandemic and the speed of Alberta's recovery after the pandemic, along with the downward trend of more recent CPI forecasts, the Commission finds that the approved out-of-scope labour inflation rates best reflect the "other" and contractor labour market. Accordingly, based on the out-of-scope labour inflation rates the Commission approved in Section 6.3, ATCO Electric is directed to use "other" and contractor inflation rates of 0.8 per cent for 2021 and 1.8 per cent for 2022. For 2020, the Commission finds ATCO Electric's updated CPI forecast change of 1.2 per cent to be reasonable for the "other" and contractor inflation rates. ATCO Electric is directed to incorporate these rates in its compliance filing.

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105 Exhibit 24964-X0004.01, Attachment 1.2 – Schedule of Impacts of Inflation on Operating Costs, Inflation Derivation tab.

106 Exhibit 24964-X0573.03, AET-CCA-2020OCT09-021(d), PDF page 123.

107 Exhibit 24964-X0004.01, Attachment 1.2 – Schedule of Impacts of Inflation on Operating Costs, Inflation Derivation tab.

108 Exhibit 24964-X0614, AET argument, paragraphs 49-50, PDF page 23.

6.5 Fringe benefits

117. ATCO Electric assumed that fringe benefits represent 25 per cent of its base salaries for each year in the test period.[109] The CCA recommended a reduction of two per cent based on several proposed targeted reductions to specific benefits because, in its view, ATCO Electric did not adequately explain or support the increases in benefits.[110] In argument, ATCO Electric addressed the individual components of its fringe costs and outlined why it considered the amounts to be reasonable.[111] Further, ATCO Electric submitted that its evidence demonstrated that the calculated fringe rate of 25 per cent was derived from a "detailed, bottom-up forecast of each component of fringe benefits," which is then applied to its forecast base salaries.[112] In its view, this methodology is consistent with the approach recommended by the CCA.[113] The CCA maintained its position in its reply argument.[114]

Commission findings

118. The Commission is satisfied with the information provided by ATCO Electric that explains the increases in fringe costs and finds the amounts to be reasonable. It also accepts ATCO Electric's derivation of the assumed 25 per cent for fringe benefits for each year in the test period. While it is not clear from the evidence that the fringe rate was derived from a "detailed, bottom-up forecast of each component of fringe benefits," the Commission finds that the attachment provided in response to a Commission IR[115] adequately illustrated that the percentage is based on ATCO Electric's forecast of each fringe benefit component, which is then applied to its forecast base salaries. ATCO Electric is directed to show the impact of those directions on its fringe benefit costs in its compliance filing.

7 Operation and maintenance costs

119. In its application, ATCO Electric stated that it forecast operating costs consistent with the previously approved activity-based forecast methodology and described the process used for developing its activity-based forecasts as follows:

> Functional areas within AET perform an annual assessment of resources to ensure that activities performed in each area are relevant and required to fulfill legislative and regulatory obligations, provide ongoing safe and reliable transmission services to customers, and meet business needs during the Test Period.[116]

[109] Exhibit 24964-X0001.03, application update, Table 1.2 Key Assumptions, PDF page 52.
[110] Exhibit 24964-X0609, CCA argument, paragraphs 476-489, PDF pages 155-159.
[111] Exhibit 24964-X0614, AET argument, paragraphs 95-98, PDF pages 34-36.
[112] Exhibit 24964-X0614, AET argument, paragraph 90, PDF page 33.
[113] Exhibit 24964-X0614, AET argument, paragraph 93, PDF page 34.
[114] Exhibit 24964-X0619, CCA reply argument, paragraph 75, PDF pages 23-24.
[115] Exhibit 24964-X0192, AET-AUC-2019NOV25-031(a) Attachment.
[116] Exhibit 24964-X0001.03, application update, paragraph 108, PDF page 149.

120. The following table summarizes ATCO Electric's direct operating costs:

Table 11. Transmission direct operating costs 2017-2022

	2017	2018	2019	2020	2021	2022
Uniform System of Account (USA)	**Actual**	**Actual**	**Actual**	**Test period**		
	($ million)					
USA 560 – Supervision & Engineering	3.5	2.9	2.6	3.6	3.7	3.8
USA 561 – Control Centre Operations	3.4	3.7	4.3	6.5	6.9	6.8
USA 562 – Station Maintenance Expenses	11.4	8.5	7.4	9.6	9.8	10.1
USA 563/569 – Overhead Lines Expenses	3.6	2.5	2.4	3.3	3.3	3.4
USA 567 – Annual Structure Payments	6.7	6.7	6.6	6.9	6.9	7.3
USA 571.1 – Vegetation Management	6.7	10.9	10.1	7.7	5.2	5.2
USA 575 – IT Support	3.0	3.0	3.6	2.6	2.8	2.7
Subtotal	**38.3**	**38.3**	**36.9**	**40.2**	**38.6**	**39.3**
USA 566 – Miscellaneous Transmission Expense non-Affiliate	12.5	16.0	11.0	12.7	13.4	13.8
Net Direct O&M	**50.8**	**54.3**	**47.9**	**52.9**	**52.1**	**53.0**
USA 566 – Miscellaneous Transmission Expense Affiliate and Service to Outside Parties, Affiliate Cost of Good Sold	25.8	23.6	22.0	16.1	10.8	11.9
Total direct O&M	**76.6**	**77.9**	**70.0**	**69.1**	**62.8**	**65.0**

Source: Exhibit 24964-X0001.03, application update, Table 5.1 Transmission Direct Operating Costs, paragraph 109, PDF page 150.

7.1 Telecommunication service agreement costs

121. ATCO Electric forecast an increase of $0.8 million to annual service agreement costs in the test period under USA 561 (control centre operations) related to its multiprotocol label switching (MPLS) and mobile radio communication systems.

122. ATCO Electric explained that these legacy communication systems, which are manufacturer-discontinued, contain proprietary hardware and firmware that it cannot manipulate or customize without manufacturer support by way of extended support service agreements. The temporary increase in service agreement costs allows for a safe transition from the legacy platform to the new platform through use of a parallel network, representing the period of time when both platforms must be operational. The new equipment will be fully deployed and functional, close to the end of the test period.[117] [118]

123. In its application update, ATCO Electric confirmed that it was in the process of renewing certain service agreements with vendors and would finalize the contracts later in 2020. ATCO Electric did not update its forecast because there was no material change to the overall forecast.[119]

124. The CCA submitted that the forecast cost increase in 2020 should be removed given that there were no new agreements at the time of the application update, and ATCO Electric would not enter into these agreements until the latter part of 2020, if at all. For this reason, the CCA said there was no need for new service agreement costs in 2020.[120]

[117] Exhibit 24964-X0001.03, application update, paragraph 126, PDF page 157.
[118] Exhibit 24964-X0535, AET rebuttal evidence, paragraphs 14 and 17, PDF pages 211-212.
[119] Exhibit 24964-X0001.03, application update, paragraph 30, PDF page 15.
[120] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 450. PDF page 183.

Commission findings

125. The Commission accepts ATCO Electric's explanation on the need for the temporary increase to service agreement costs driven by the transition from the legacy to the new telecommunication platform.

126. The Commission does not consider the CCA's suggestion that any risks that materialize can be addressed through other means[121] to be compelling in light of the technical nature of the equipment involved and the need for the safe, efficient and reliable operation of the Alberta Interconnected Electric System (AIES).

127. For these reasons, the Commission approves the telecommunication service agreements as filed for the test years.

7.2 Compliance with Alberta Reliability Standards

128. ATCO Electric is forecasting an increase of $1.7 million under USA 562 (station maintenance expenses) with an associated increase of nine FTEs through the test period, due to compliance activities associated with PRC-005, which is explained below:[122]

> 113. The AESO's Protection System, Automatic Reclosing and Sudden Pressure Relaying Maintenance standard, PRC-005-AB1-6, became effective on October 1, 2019. This Alberta Reliability Standard outlines mandatory maintenance requirements for protection system elements including battery banks, protective relays, telecommunication, auxiliary trip relays, circuit breaker trip coils, alarms and sudden pressure relays. PRC-005 is applicable to transmission facilities generally operating at 100 kV [kilovolt] or higher that are connected to multiple sources, where equipment failure can have a more significant impact on the overall electric system.

129. ATCO Electric submitted that the impact of PRC-005 on labour is material and includes additional travel requirements to remote substation sites, new maintenance activities that have not previously been performed, and more rigorous requirements for some existing maintenance activities.[123]

130. In its application update, ATCO Electric advised that its forecast preventative maintenance activity was progressing on schedule with all planned 2020 work either being completed or planned for completion by the end of the year. ATCO Electric did not anticipate any material change from its original forecast.[124]

131. The CCA questioned how much additional work was required for ATCO Electric to be compliant with the PRC-005 standard, given that it was already maintaining these protection systems, though less frequently. In the CCA's view, the incremental PRC-005 work does not justify the requested large addition to substation maintenance FTEs, and it recommended that the increase of nine FTEs requested by ATCO Electric be reduced to an increase of two FTEs for the test period.[125]

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[121] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 448. PDF page 183.
[122] Exhibit 24964-X0001.03, application update, paragraph 113, PDF pages 152-153.
[123] Exhibit 24964-X0001.03, application update, paragraphs 115-117, PDF pages 153-154.
[124] Exhibit 24964-X0001.03, application update, paragraph 2, PDF page 7.
[125] Exhibit 24964-X0446, CCA evidence Part 2, paragraphs 259-260. PDF pages 68-69.

132. ATCO Electric challenged the CCA recommendation, stating that the CCA underestimated the amount and complexity of the additional maintenance tasks now required under PRC-005 by assuming ATCO Electric is already performing the majority of the new tasks or by oversimplifying bundling of maintenance tasks.[126]

Commission findings

133. The Commission accepts ATCO Electric's explanation on the need for the increased workload and the additional FTEs required for compliance activities associated with PRC-005, given the technical nature of the work involved and the need for the safe, efficient and reliable operation of the AIES.

134. The Commission is not persuaded by the CCA's position that the forecast workload increase may not be required because ATCO Electric was already maintaining these protection systems.

135. For these reasons, the Commission approves forecast costs for the compliance activities associated with PRC-005 as filed for the test years.

7.3 Cybersecurity and critical infrastructure protection

136. ATCO Electric is forecasting an increase of $1.1 million under USA 566 (miscellaneous transmission expense), with an associated increase of six FTEs through the test period, to strengthen its critical infrastructure protection (CIP) compliance activities, to meet the evolving physical and cyber-related threats to critical infrastructure, and to meet the expectations of the regulator on Alberta Reliability Standards (ARS) CIP standards,[127] which include the following:[128]

> 118. The AESO's Critical Infrastructure Protection (CIP) program consists of 10 active standards that define requirements designed to secure the assets required for operating Alberta's bulk electric system. All 10 active standards are presently applicable to AET and came into effect in October 2017. These standards address the security of electronic perimeters and the protection of critical cyber assets as well as personnel and training, security management and disaster recovery planning.

137. ATCO Electric submitted that the additional FTEs are required to secure its cyber assets, to ensure compliance to ARS CIP standards, and to work with the AESO and market participants to evergreen and clarify interpretation of existing standards to be able to deliver safe and reliable service.[129]

138. In its application update, ATCO Electric stated that it had filled four of the six CIP positions and planned to hire the remaining complement in the latter part of 2020. It did not update its forecast as there was no material change to the overall forecast.[130]

139. The CCA submitted that the cybersecurity program has been running well and ATCO Electric has successfully implemented all 10 CIP standards which came into effect in October

[126] Exhibit 24964-X0535, AET rebuttal evidence, paragraph 22, PDF pages 444-445.
[127] Exhibit 24964-X0001.03, application update, paragraph 123, PDF page 156.
[128] Exhibit 24964-X0001.03, application update, paragraph 118, PDF page 154.
[129] Exhibit 24964-X0535, AET rebuttal evidence, paragraph 8, PDF pages 435-436.
[130] Exhibit 24964-X0001.03, application update, paragraph 3, PDF page 7.

2017. The CCA disagreed with ATCO Electric's request for six additional FTEs over the test period, stating that only a modest CIP growth limited to $0.25 million should be allowed to align with the historical level of the last three years.[131]

Commission findings

140. The Commission accepts ATCO Electric's explanation of the need for the increased workload and the additional FTEs required to meet the new mandatory CIP standards[132] for cybersecurity and CIP work, given the technical nature of the work involved and the need for the safe, efficient and reliable operation of the AIES, which has undergone continued modernization, with enhanced control features.[133]

141. The Commission is not persuaded by the CCA's position that the forecast workload increase may not be required because all 10 CIP standards have already been implemented. It therefore rejects the CCA's request to deny the forecast costs associated with the six additional FTEs related to cybersecurity and CIP work over the test years of the application.

142. For these reasons, the Commission approves the cybersecurity and critical infrastructure costs as filed for the test years.

7.4 Taxes other than income

143. ATCO Electric submitted that increases in taxes other than income over the period shown in the table below are mainly driven by growth in the transmission system as well as inflation.

Table 12. Taxes other than income 2017-2022

2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast
($ million)					
45.7	45.0	44.7	46.7	47.3	49.2

Source: Exhibit 24964-X0002.03, GTA Schedules, Schedule 5-6 Transmission Taxes Other Than Income.

144. ATCO Electric indicated that the Central East Transfer Out (CETO) Project in the application did not have an impact on taxes other than income because the in-service date (ISD) is forecast to be outside the test period.[134]

Commission findings

145. Based upon ATCO Electric's confirmation that the forecast of taxes other than income does not contain any amounts related to the CETO project, the CCA's request[135] to remove such costs from the application is unnecessary and therefore rejected.

146. The Commission approves the taxes other than income as filed for the test years.

131 Exhibit 24964-X0446, CCA evidence Part 2, paragraph 249. PDF page 66.
132 Exhibit 24964-X0621, AET reply argument, paragraph 136, PDF page 49.
133 Exhibit 24964-X0614, AET argument, paragraph 167, PDF pages 59-60.
134 Exhibit 24964-X0535, AET rebuttal evidence, paragraph 1, PDF page 1111.
135 Exhibit 24964-X0446, CCA evidence Part 1, paragraphs 404-408, PDF pages 168-169.

7.5 Variable Pay Program and costs

147. ATCO Electric applied for the continuance of its Variable Pay Program (VPP) and related costs in the 2020-2022 test years.

7.5.1 VPP costs

148. ATCO Electric's VPP is for its out-of-scope employees and is part of a total compensation package. ATCO Electric stated that while the underlying structure of its VPP has remained the same, the administration of the program has evolved over time, and is less formulaic in ascribing specific percentages to performance metrics:

> … the program has changed since 2013 and it is no longer a formulaic exercise. Rather, financial performance forms part of an overall consideration of the size of the total VPP payout to all employees; other considerations include operational, environmental and safety performance, customer satisfaction and economic conditions. For this reason, AET cannot:
>
> - Identify the portion of the VPP, as a percentage, that is based on the financial performance of ATCO Electric, ATCO and/or CU Inc.;
> - Identify all financial metric targets it is using as part of its VPP;
> - Provide a thorough explanation of how financial performance is factored into the VPP payouts/forecasts, or provide numerical examples to demonstrate how financial metric targets are factored into VPP payouts; or
> - Provide a forecast of the financial performance portion of its VPP payout compared to total forecast VPP payout, for all years in the current Test Period.[136]

149. In the current application, ATCO Electric applied for VPP costs forecast in the amounts identified in this table:

Table 13. ATCO Electric historical and forecast VPP costs

Description	2017 Actual	2018 Actual	2019 Actual	Test period		
				2020	2021	2022
	($ million)					
Transmission Direct O&M - 566	0.5	0.8	1.0	1.1	1.1	1.1
Direct assign capital	1.0	0.6	0.6	1.0	1.0	1.1
Non-direct assign capital	1.2	1.5	2.0	2.2	2.3	2.3
Transmission	2.6	2.9	3.6	4.3	4.4	4.5
Isolated generation O&M - 557	0.0	-	0.1	0.1	0.1	0.1
Isolated generation	0.0	-	0.1	0.1	0.1	0.1
Corporate O&M - 920	0.3	0.9	0.5	1.2	1.2	1.2
Corporate	0.3	0.9	0.5	1.2	1.2	
Total	**2.9**	**3.7**	**4.2**	**5.6**	**5.7**	**5.8**
Summary						
Transmission O&M VPP	0.8	1.7	1.6	2.3	2.4	2.4
Transmission direct assign capital VPP	1.0	0.6	0.6	1.0	1.0	1.1
Transmission non-direct-assign capital VPP	1.2	1.5	2.0	2.2	2.3	2.3
Total Transmission VPP	2.9	3.7	4.2	5.6	5.7	5.8

[136] Exhibit 24964-X0567.01, AET-AUC-2020OCT08-004(c), PDF page 13.

Description	2017 Actual	2018 Actual	2019 Actual	Test period		
				2020	2021	2022
	($ million)					
Compliance – not final approved		3.9	4.0			

Source: Exhibit 24964-X0002.03, MFR schedules, Schedule 25-11, and Exhibit 24805-X0005.02, MFR schedules, Schedule 25-11 for "Compliance – not final approved."

150. The CCA submitted that issues respecting ATCO Electric's VPP were well known to the Commission and that ATCO Electric had not supported 100 per cent of its forecast VPP costs. The CCA stated there continues to be a lack of clarity in the weighing of various performance and financial indicators and in the frequency of financial performance metrics being used.[137] Other concerns raised by the CCA are that the VPP incentives include a component for company performance; incentives and goals for employees are not clearly linked to ratepayer interests; the CEO has discretion over VPP payments; a higher amount of VPP on average has been paid out to leadership positions; and the VPP has not been paid out fully each year.[138]

151. The CCA argued that if the Commission found that these concerns supported a denial of some, but not all of the applied-for forecast costs, the Commission should then approve the CCA's recommendation of 80 per cent of the VPP amount forecast in each of 2020, 2021 and 2022.[139]

Commission findings

152. The Commission agrees with the CCA that many of its concerns with the VPP identified in prior ATCO Electric GTAs have been previously acknowledged by the Commission in its earlier decisions.[140] These include a lack of detail on prescribed performance goals, discretion to deny or reduce VPP payments, and a trend to underpay VPP relative to the approved VPP amounts in any given year.[141]

153. While ATCO Electric provided additional evidence in IR responses on the portion of VPP that is based on the financial performance of the company, as opposed to an individual employee,[142] the Commission finds that ATCO Electric's explanation of what portion of VPP payouts is tied to financial performance remains insufficient. It is still not clear which goals and incentives are driving the VPP eligible employees, and whether those goals and incentives align with the interests of ratepayers.

154. Most compelling, however, is the CCA's argument that ATCO Electric would be unlikely to pay its VPP at 100 per cent given the current economic circumstances facing Alberta. The CCA's recommended reduction to 80 per cent of forecast VPP costs is also closely aligned with historical approved and actual VPP payouts, and further reflects that ATCO Electric did not

[137] Exhibit 24964-X0609, CCA argument, paragraph 461, PDF page 149.
[138] Exhibit 24964-X0609, CCA argument, paragraph 457, PDF page 147.
[139] Exhibit 24964-X0609, CCA argument, paragraphs 463 and 466, PDF pages 150-151.
[140] Decision 20272-D01-2016: ATCO Electric Ltd., 2015-2017 Transmission General Tariff Application Proceeding 20272, August 22, 2016, paragraphs 184-192, and Decision 22742-D01-2019, paragraphs 149-156.
[141] Decision 22742-D01-2019, paragraphs 154-156, PDF page 48.
[142] Exhibit 24964-X0567.01, AET-AUC-2020OCT08-004(c), PDF pages 13-14.

modify its VPP in light of Alberta's current economic decline and the fact that the ATCO CEO continues to have discretion over the payment of VPP.[143]

155. For these reasons, the Commission declines to approve ATCO Electric's VPP costs in the amounts forecast in full. ATCO Electric is directed to reduce its VPP costs to 80 per cent of the forecast amounts in its compliance filing.

7.5.2 VPP reserve account

156. In Decision 22742-D01-2019, the Commission directed ATCO Electric to provide options on how it could best operate the VPP reserve account to avoid an increasing accumulated balance, i.e., the VPP reserve account balance should trend as close to zero as possible (Direction 9).[144]

157. In Decision 24805-D02-2020 (the compliance filing to Decision 22742-D01-2019), the Commission acknowledged that its prior direction to ATCO Electric regarding the VPP reserve account[145] did not address whether the approved VPP forecast amount was to be applied to the aggregate forecast amount approved by the Commission (and reflected in Schedule 25-11 of ATCO Electric's MFR schedules) or to each of the three components of VPP, when adjusting for actuals through the VPP reserve (the mechanics). While Decision 24805-D02-2020 approved ATCO Electric's proposal to drawdown the VPP reserve account by the aggregate actual 2016 amount of VPP[146] (not constrained by the individual components of O&M, direct, and non-direct assigned capital), the 2018 and 2019 forecast VPP amounts were not approved as final.

158. In the same decision, the Commission held that ATCO Electric's compliance with Direction 9 of Decision 22742-D01-2019 remained outstanding and that the mechanics of ATCO Electric's VPP reserve account and the treatment of any accumulated reserve balances would be best dealt with in Proceeding 24964.[147]

159. Therefore, at issue in the current proceeding are the mechanics by which ATCO Electric will administer its VPP reserve account, and whether and how any unspent VPP reserve balances should be settled, in order to maintain a reserve balance as close to zero as possible.

160. ATCO Electric proposed that in order to maintain a reserve balance as close to zero as possible, it would record a "reserve adjustment that would be equal to the aggregate difference of total VPP between the actual and approved payments for the years prior to the test period where actuals are known."[148] [149] ATCO Electric submitted that the adjustment would ensure that the closing balance at the end of each new test period year is equal to the applied-for variable pay payments for that year on an aggregate basis.

161. The CCA recommended that the Commission direct ATCO Electric to account for each component of its VPP on a disaggregated basis within the reserve account as part of its compliance filing to this decision and further, recommended a timely refund of VPP reserve

[143] Exhibit 24964-X0436, CCA evidence Part 1 of Madsen/Chau, paragraph 323, PDF pages 129-130.
[144] Decision 22742-D01-2019, paragraph 160, PDF page 49.
[145] Decisions 20272-D01-2016 and 22742-D01-2019.
[146] Decision 24805-D01-2020, paragraph 135, PDF page 32.
[147] Decision 24805-D02-2020, paragraph 136, PDF page 33.
[148] Exhibit 24964-X0001.03, application update, paragraph 593, PDF page 630.
[149] Exhibit 24805-X0001.01, application, PDF page 34.

account differences in the test period to ensure the reserve account balance remains as close to zero as possible.[150]

162. The CCA stated that under a disaggregated approach, the refund of direct and non-direct assigned capital VPP amounts would have to be treated differently than the O&M VPP amounts. Where ATCO Electric pays VPP amounts above the approved forecast, there would be no adjustment required, whereas underpayment of any component would be set to the actual amount paid. Specifically, the reconciliation and refund would ultimately calculate the amount of O&M VPP paid below that approved, and refund the difference for each individual year, and similarly, ATCO Electric would refund the depreciation, return and income taxes collected in ATCO Electric's revenue requirement for any capital-related VPP amounts, again for each individual year.[151]

163. ATCO Electric rejected the CCA's proposal that the VPP reserve account should be split into its components for the purpose of performing a reconciliation or true-up. ATCO Electric argued that this proposal does not reflect how VPP is managed or awarded as a single program and that it created unnecessary complexity.[152]

164. ATCO Electric also rejected an alternative proposal to coincide with the time at which ratepayers pay ATCO Electric the VPP funds, to when they are awarded to employees. In ATCO Electric's view, moving to what effectively is a cash basis would create an unnecessary complication and disconnect between the year in which the VPP is earned and is attributable to the provision of service, as opposed to the year in which VPP is included in revenue requirement.[153]

Commission findings

165. The Commission directed ATCO Electric to establish a VPP reserve account in Decision 20272-D01-2016[154] to address the legitimate need to maintain funding in support of ATCO Electric's recruitment, retention and operational performance goals, while ensuring that any incentive to withhold VPP amounts otherwise payable to eligible employees is removed.

166. Since that time, the Commission denied ATCO Electric's request to amend the mechanics of its VPP reserve account to be symmetrical in nature.[155] The Commission also directed ATCO Electric to provide options, in its compliance filing to Decision 22742-D01-2019, on how the VPP reserve account could be best operated so as to avoid increasing accumulated balances. The Commission's objective was for ATCO Electric to maintain a balance in the VPP reserve account as close to zero as possible. The Commission's rationale in this regard was that requiring customers to fund VPP amounts forecast to be spent that may not be spent, not only for a period of one or more years, but for one or more successive test periods, was "prima facie harmful to customers."[156]

[150] Exhibit 24964-X0609, CCA argument, PDF page 154.
[151] Exhibit 24964-X0464, CCA-AUC-2020AUG28-022, PDF page 91.
[152] Exhibit 24964-X0621, AET reply argument, paragraph 43, PDF page 19.
[153] Exhibit 24964-X0567.01, AET-AUC-2020OCT08-004, PDF pages 12-13 and AET-AUC-2020OCT08-005, PDF pages 15-16.
[154] Decision 20272-D01-2016, paragraph 192, PDF page 51.
[155] Decision 22742-D01-2019, paragraph 160, PDF page 49.
[156] Decision 22742-D01-2019, paragraph 160.

167. ATCO Electric forecasts VPP amounts in three components: O&M, direct assigned capital, and non-direct assigned capital; however, actual payments of those forecast amounts are removed from the VPP reserve account in an aggregate amount. This led to the CCA concern that, for example, underpayments of O&M VPP amounts were funding overpayments of capital-related VPP amounts. The CCA noted that in 2016, the VPP payments included in ATCO Electric's application exceeded the amounts for each of the individual O&M and non-direct assigned components of its total VPP but did not exceed the total VPP amounts approved by the Commission for that same year.[157]

168. In Decision 20272-D01-2016, the Commission made the following finding:

> It remains unclear to the Commission, based on the above exchange, whether ATCO Electric will pay VPP amounts in 2016 and 2017. Mr. DeChamplain confirmed that all decisions with respect to VPP payment amounts at ATCO Electric "are subject to [the ATCO Ltd.] CEO's approval" based on economic conditions, apparently even if all of the utility's internal performance criteria are otherwise met. This suggests to the Commission that, were it to approve ATCO Electric's forecast expenditures for VPP in 2016 and 2017, there is no assurance that VPP payments will actually be made even if employees achieve or exceed all their performance targets. The result is that, unlike other forecast expenditures which may or may not be incurred because of external factors outside of ATCO Electric's control, VPP amounts, which are fully within ATCO Electric's control to pay, can be withheld from employees to the benefit of shareholders (and the cost of ratepayers) based on directions received from the CEO of ATCO Electric's ultimate parent company.[158]

169. The impetus for approving the VPP reserve account in Decision 20272-D01-2016 remains. ATCO Electric controls whether to pay VPP forecast amounts; however, payment may be withheld from employees to the benefit of shareholders (and to the cost of ratepayers) based on instructions received from the CEO of ATCO Electric's ultimate parent company.

170. The Commission agrees with the CCA that it is not appropriate for ATCO Electric to fund an overpayment of one component of VPP with an underpayment of another component of VPP. As noted by the CCA, each constituent amount is "funded differently, with non-direct assigned and direct assigned VPP being funded as capital expenditures and O&M VPP being funded through revenue requirement."[159]

171. The Commission finds that maintaining the VPP reserve account on an aggregate basis creates an unacceptable risk to ratepayers under the specific circumstance where ATCO Electric pays less O&M VPP on an actual basis than was recovered from ratepayers on a forecast basis. Offsetting an O&M underpayment with a capital VPP overpayment on an aggregate basis does not eliminate or obviate the fact that shareholders will benefit in the year of the O&M VPP underpayment. This is an outcome that is not obvious under aggregation and is a result of the dollar-for-dollar nature of the O&M component of ATCO Electric's VPP.

[157] Decision 24805-D02-2019, paragraph 132, PDF page 32.
[158] Decision 20272-D01-2016, paragraph 189.
[159] Exhibit 24964-X0436, CCA evidence, paragraph 332, PDF page 135.

172. In the Commission's view, underpaying actual capital VPP on an aggregated basis does not pose the same risk to ratepayers given that capital VPP is recorded into rate base on an actual basis.

173. The Commission also agrees with the CCA that, given the growing VPP reserve balance since the reserve account's inception, a timely refund of unspent VPP reserve account balance in the test period is necessary to ensure that the balance remains as close to zero as possible.

174. The Commission accepts ATCO Electric's statement that no significant issues would arise were the Commission to direct the removal of unspent capital VPP funds from the reserve account (in a manner similar to the treatment of approved but unspent capital expenditures in GTA forecasts), as doing so would provide ATCO Electric with an adjustment mechanism to drawdown the reserve account balance.

175. The Commission also accepts ATCO Electric's clarification that for direct assigned capital VPP (as subject to deferral account treatment), future adjustments may be required that affect the actual VPP paid; and, for non-direct assigned capital VPP, actual capital-related balances inform ATCO Electric's opening rate base with no impact on future revenue requirement. In this regard ATCO Electric confirmed that the removal of unspent capital VPP funds from the reserve account made sense.[160]

176. For the reasons above, and for the purposes of both ongoing administration and a timely settlement of unspent accumulated reserve balances, the Commission directs ATCO Electric to administer its VPP reserve account by disaggregating O&M, direct assigned, and non-directed assign capital VPP amounts effective January 1, 2020. This also applies to MFR Schedule 29-5, for which ATCO Electric is directed to prepare its continuity Schedule of Reserve for VPP on a disaggregated basis.

177. The Commission also directs that, effective January 1, 2020, the opening balance of ATCO Electric's VPP reserve account should be adjusted to reflect, on a disaggregated basis, the lesser of the approved 2019 forecast to be settled in the year 2020 or the actual 2019 amount paid in the year 2020.

178. Under a disaggregated method, these adjustments are intended to ensure, going forward, that the closing balance at the end of each new test period year is equal to the applied-for VPP payments for those years, or, maintained as close to zero as possible in circumstances where actual and approved information has not yet been finalized for the affected test years.

179. In setting these opening balances on a disaggregated basis, effective January 1, 2020, ATCO Electric is directed to remove any unspent capital VPP amounts from its VPP reserve account. With respect to O&M VPP, setting a January 1, 2020, opening balance at the lesser of the approved 2019 forecast or the actual 2019 amount paid in 2020 will effectively result in settling the O&M VPP through a one-time revenue requirement adjustment in ATCO Electric's compliance filing.

[160] Exhibit 24964-X0567.01, AET-AUC-2020OCT08-005, PDF pages 15-16.

180. The Commission considers that, specifically in respect of direct assigned capital VPP, there may be future true-ups to actual VPP payments that will be considered upon completion of any related direct assigned capital deferral account (DACDA) proceedings.

181. Further, at the time of release of this decision, the determinations on ATCO Electric's 2018 and 2019 VPP forecasts remain outstanding, therefore any reference to amounts for these years have not been approved on a final basis, and are subject to change.[161]

7.6 Mid-Term Incentive Program costs

182. ATCO Electric's Mid-Term Incentive Program (MTIP) is provided primarily to employees at the senior and executive level of the organization. It is a compensation tool designed to attract and retain experienced employees to ensure the safety and reliability of its transmission system.

183. Despite the existence of the MTIP for many years, ATCO Electric has not previously applied for recovery of costs under the program's earlier design because both individual employee and company performance goals had to be achieved for an employee to receive an MTIP payout. ATCO Electric indicated that the Commission has not historically approved the portion of incentive programs that include company financial goals.

184. In this proceeding, ATCO Electric proposed a new design for MTIP in which the MTIP payout for the company performance portion (tied to the overall performance of CU Ltd.) is separated from the employee performance portion (tied to individual performance goals that each employee must meet over a three-year period). ATCO Electric explained that each performance portion is achieved independently of the other. The company performance portion makes up 40 per cent of the total MTIP payout, whereas the employee performance portion makes up 60 per cent of the total MTIP payout. These percentages vary, however, based on the level of an employee's position.[162]

185. ATCO Electric applied for recovery of the employee performance portion of its forecast MTIP costs in the amount of $0.3 million in each of the years in the 2020-2023 test period.

186. The CCA recommended that ATCO Electric's request for MTIP costs be denied. It submitted that the key issue is whether an additional form of incentive compensation for a narrow group of senior executive level employees should be approved, especially when compensation requirements are being "compressed"[163] due to the economic environment in Alberta. The CCA's reasons for disallowances included:

[161] Proceeding 24805-D02-2020, Direction 8: "However, as discussed in the FTE sections above, the Commission still requires further adjustments for AET to comply with Direction 1, which may have an effect on the allocation of VPP amounts in Schedule 25-11 of AET's MFR schedules. The Commission directs AET, in its consolidated filing, to update its VPP amounts to reconcile these schedules with any changes made in response to Direction 1," paragraph 124, PDF page 30.

[162] Exhibit 24964-X0001.03, application update, paragraphs 522-527, PDF pages 446-447.

[163] Exhibit 24964-X0609, CCA argument, paragraphs 437-438, PDF pages 140-141.

(a) ATCO Electric's confirmation that its base salaries for executive positions are currently six per cent above market median, notwithstanding that its goal for compensation levels is targeted to be market median.[164]

(b) ATCO Electric's confirmation that average VPP payout in 2019 for leadership positions was 107 per cent of forecast amounts whereas for all other employees, the average VPP payout was 95 per cent.[165]

(c) A lack of clarity of which specific individual performance goals are being set for employees and whether those goals and the associated incentives are aligned with the interests of customers.[166]

Commission findings

187. The Commission disallows the costs of the MTIP because ATCO Electric has not justified why these costs should be recovered from customers.

188. ATCO Electric stated that the nature of the MTIP is "to incent employees, who meet their personal performance goals, to stay with AET for at least three years (i.e., the medium term) so that they are paid the MTIP."[167] However, Alberta is currently experiencing an economic downturn, the labour market is less than robust, and as a result, ATCO Electric employees are less likely to leave the utility for new opportunities in the forecast period.

189. Further, the Commission considers that the labour-related costs approved in ATCO Electric's O&M and VPP accounts already provide reasonable compensation for ATCO Electric's leadership employees. As noted by the CCA, current base salaries for leadership positions are six per cent above the market median, and the VPP payouts in 2019 for leadership positions was 107 per cent of forecast amounts whereas for all other employees, the average VPP payout was 95 per cent. In view of the above, the Commission declines to approve ATCO Electric's request to include the employee performance portion of its forecast MTIP costs in the test years. ATCO Electric is directed to remove its forecast MTIP costs for 2020-2022 in its compliance filing.

7.7 Vegetation management costs and reserve account

190. ATCO Electric forecast decreasing vegetation management costs (in USA 571.1) for the years 2020-2022 as a result of converting the bulk of its transmission rights-of-way from mechanical treatments to herbicide control. ATCO Electric advised that, during the test period, its Vegetation Management Program will continue to realize significant cost savings due to the successful execution of its long-term, multi-year, strategic plan.[168] [169]

191. ATCO Electric also requested the discontinuation of its vegetation management reserve account as being unnecessary given the trend towards decreased vegetation management costs and its strong forecast accuracy in recent years.

[164] Exhibit 24964-X0609, CCA argument, paragraph 338, PDF page 109.
[165] Exhibit 24964-X0614, AET argument, paragraph 479, PDF page 148.
[166] Exhibit 24964-X0609, CCA argument, paragraph 443, PDF page 143.
[167] Exhibit 24964-X0621, AET reply argument, paragraph 326, PDF page 106.
[168] Exhibit 24964-X0001.03, application update, paragraphs 133-136, PDF page 160.
[169] Exhibit 24964-X0001.03, application update, Section 5.3.6, PDF pages 181-191.

192. The CCA argued that the vegetation management reserve account continues to serve its core purpose of ensuring the stability of ATCO Electric's Vegetation Management Program with no harm to either ATCO Electric or customers. Therefore, the CCA submitted that the reserve account should continue to exist through the 2020-2022 test period.[170]

193. The CCA further recommended a 10 per cent reduction to ATCO Electric's forecast vegetation management costs over the test period, on the basis that doing so would incent ATCO Electric to find and implement all possible efficiencies in its vegetation management practices, and also take into account ATCO Electric's discretion to spend at reduced levels in a test period without directly affecting the safety and reliability of the transmission system.[171]

Commission findings

194. In Decision 22742-D01-2019, the Commission denied ATCO Electric's request to discontinue the use of its vegetation management reserve account, and found merit in maintaining the reserve account because it provided stability in the management of ATCO Electric's forecast costs.[172]

195. The Commission agrees that ATCO Electric has shown improved forecast accuracy and a trend of cost reductions in the prior 2018-2019 test period that are forecast to continue in the 2020-2022 test period as illustrated in the following table:

Table 14. Comparison of forecast, compliance and actual vegetation management costs

	2018	2019	2020	2021	2022
	($ million)				
Applied-for / forecast	10.9	11.1	7.7	5.2	5.2
Compliance – not final approved	10.9	10.0			
Actual	10.9	10.1			

Source: Exhibit 24964-X0002.03, MFR schedules, Schedule 5.1, and Proceeding 24805, Exhibit 24805-X0005.02, MFR schedules, Schedule 5-1, for amounts indicated as "Compliance – not final approved."

196. However, the Commission finds that these improved costs do not outweigh the fact that the execution of ATCO Electric's Vegetation Management Program remains, to a large degree, unpredictable and subject to forecast risk. As acknowledged by ATCO Electric, weather conditions and contractor availability are factors that can influence the success of ATCO Electric's Vegetation Management Program.

> Projected treatment volumes are based on ideal weather conditions and contractor availability. Actual treatment volumes may be different than projected volumes due to abnormally warm winters that increase the cost and reduce the productivity associated with mulching operations, or abnormally wet or windy summers that reduce the window for effective herbicide application.[173]

[170] Exhibit 24964-X0609, CCA argument, paragraph 667, PDF page 212.
[171] Exhibit 24964-X0609, CCA argument, paragraphs 668-670, PDF page 213.
[172] Decision 22742-D01-2019, paragraph 206, described that: "The reserve was established in Decision 20272-D01-2016, pursuant to which the Commission directed AET to set off amounts spent in excess of the approved forecast for a given test year against amounts included in the approved forecast(s) for subsequent years within the specific test period. Approved but unused amounts within any given test period would be added to the reserve account balance for start of the next test period." (footnote omitted)
[173] Exhibit 24964-X0001.03, application update, paragraph 226, PDF page 189.

197. For these reasons, the Commission declines ATCO Electric's request to discontinue the use of its vegetation management reserve account.

198. The Commission rejects the CCA's recommendation for a 10 per cent reduction to ATCO Electric's 2020-2022 forecast vegetation management costs. Given that ATCO Electric has forecast a significant reduction in costs compared to previous test years, and the continued use of a vegetation management reserve account, the Commission finds ATCO Electric's forecast to be reasonable.

8 Depreciation

199. ATCO Electric filed a depreciation study,[174] prepared by Larry Kennedy of Concentric Advisors, ULC (Concentric). In its application, ATCO Electric used the depreciation parameters developed in the Concentric study, including the annual depreciation accrual rates recommended for 2020-2022.

200. The recommended depreciation parameters with respect to service life and Iowa curve (life-curve) and net salvage estimates were developed based on the straight-line method using the equal life grouping procedure, and were applied on a whole life basis with any accumulated depreciation variances in excess of five per cent amortized over the composite remaining life of the assets as of December 31, 2018. A separate amortization of reserve differences calculation was conducted with the resultant true-up to be recovered on an annual basis. For certain general plant accounts, the annual and accrued depreciation expense are based on amortization accounting. These methodologies are consistent with those used in ATCO Electric's previous depreciation studies.

201. The service life and net salvage estimates were based on a number of factors, including informed professional judgment, which incorporated a review of ATCO Electric management's plans, policies and outlook; a general knowledge of the electric utility industry; and comparisons of the service life and net salvage estimates from Concentric's studies of other electric utilities.

202. The depreciation study relied on a database that included actual plant data up to December 31, 2018, and forecast plant in service as of December 31, 2019, December 31, 2020, and December 31, 2021, in determining depreciation rates for the years 2020, 2021 and 2022.

203. A summary of ATCO Electric's 2018-2019 actual and 2020-2022 forecast depreciation expense is set out in the following table:

[174] Exhibit 24964-X0033.02, Depreciation study.

Table 15. ATCO Electric historic and forecast depreciation and amortization expense

Depreciation and amortization expense	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast
	($ million)				
Gross provision	205.0	201.7	240.2	243.8	252.4
Vehicle depreciation capitalized	(1.9)	(2.7)	(2.2)	(2.4)	(2.6)
Amortization of contributions	(10.1)	(10.6)	(11.5)	(12.7)	(14.1)
Total depreciation expense	**193.0**	**188.5**	**226.5**	**228.7**	**235.6**
Year-over-year increase in total depreciation expense			**38.0**	**2.2**	**6.9**

Source: Exhibit 24964-X0002.03, MFR schedules, Schedule 6-1.

204. The $38.0 million forecast increase in ATCO Electric's 2020 depreciation expense relative to 2019 actuals was due primarily to the proposed percentage increases in negative net salvage and changes to life-curve parameters, which added approximately $14.1 million and $10.9 million, respectively. A $1.5 million increase in the annual amortization of reserve differences and one-time composite depreciation rate update on AFUDC differential assets of $3 million accounted for most of the remaining increase in 2018, with the remaining $8.6 million of the increase a result of capital additions. The forecast increase in depreciation expense of $2.2 million in 2021 and $6.9 million in 2022 was largely a result of capital additions.

205. ATCO Electric stated that it proposed a number of changes that would affect the depreciation study accounts:

- As directed in Decision 20272-D01-2016 in Direction 21, establish an account dedicated to ISO Rule 502.2 compliant towers in USA 354.01 – Towers ISO Rule 502.2 Compliant. These assets had been previously included in USA 354.00 – Transmission Towers.

- Initiate amortization accounting for USA 350.10 – Land Rights as an opportunity to lessen the administrative burden otherwise associated with this account.

- Combine four McNeill Converter Station assets accounts that were previously separated and studied independently with four transmission asset accounts that are similar in nature.

- Combine two vehicle categories (categories 5 and 6) within two previously established categories (categories 2 and 3, respectively) given the need to maintain them separately no longer exists.

- Use amortization accounting for its contributions made to ATCO Electric Distribution at a mirror rate for administrative ease.

206. Hayitbay Mahmudov and Patricia Lee submitted depreciation evidence on behalf of the UCA, which contested ATCO Electric's proposed life-curve estimates for five accounts and net salvage percentages for five accounts.

207. Dustin Madsen and Jan Thygesen submitted separate depreciation evidence on behalf of the CCA.

208. The CCA acknowledged that Mr. Madsen's position evolved during the proceeding (due to changing circumstances) and concluded that the Commission should approve the depreciation recommendations of the UCA and those made by Mr. Thygesen.

209. Mr. Thygesen advanced two alternative approaches to negative net salvage of "recognizing the tax shield in advance"[175] and "recognizing the effects of inflation on the rates paid"[176] [177] as methods to reduce current net salvage costs for customers. Mr. Thygesen stated that:

> The tax shield and constant dollar model which can help to reduce current customer rates are independent of and have no impact on the underlying depreciation parameters such as useful life, IOWA curve or salvage rate. The tax shield and constant dollar model take these amounts as given. In other words, the tax shield and constant dollar model can be thought of as overlays on top of the depreciation study and applied after the depreciation study.[178]

210. ATCO Electric argued that neither constant dollar accounting nor a constant dollar model comply with accounting standards, or group depreciation principles, and are overly simplistic and unrealistic to implement. ATCO Electric indicated that the constant dollar approaches are akin to a sinking fund method that have long been routinely rejected in other jurisdictions.[179] [180]

211. The CCA also proposed that the Commission consider initiating a separate proceeding in 2021 involving only AltaLink Management Ltd. and ATCO Electric to determine the preferred long-term approach to collecting depreciation and net salvage. It said that such a proceeding could result in a consistent approach to depreciation methodology. In the CCA's view, this is important given the Commission's recent approval, in Decision 25870-D01-2020,[181] of AltaLink's alternative net salvage methodology and would give parties an opportunity to resolve lingering issues of intergenerational inequity, asset utilization and the consequences of shifting costs to different generations of ratepayers.[182]

Commission findings

212. The Commission does not accept the CCA's further recommendations that a future proceeding be initiated, that there should be recognition of a tax shield on net salvage costs, or that some form of constant dollar approach should be applied. The Commission recently confirmed that depreciation-specific issues should properly be examined within the context of a comprehensive GTA.[183] In the case of the tax shield and constant dollar recommendations, the

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175 Exhibit 24964-X0442, CCA evidence, part 3, paragraphs 88-89, PDF page 30: "One method of reducing both tax payments and the total absolute value of payments is to 'accelerate' or recognize the tax shield effect of the cash salvage payment up front … [which] … can be done by basing the salvage payment included in the revenue requirement on the net negative salvage costs after recognizing the tax shield."

176 Exhibit 24964-X0442, CCA evidence, part 3, paragraph 93, PDF page 31: "A second way to reduce current costs for customers is to recognize the impacts of inflation."

177 Exhibit 24964-X0442, CCA evidence, part 3, paragraph 79, PDF page 28.

178 Exhibit 24964-X0442, CCA evidence, part 3, paragraph 120, PDF pages 37-38.

179 Exhibit 24964-X0614, AET argument, paragraph 207, PDF page 74.

180 Exhibit 24964-X0529, Rebuttal Concentric, PDF pages 29-31.

181 Decision 25870-D01-2020: AltaLink Management Ltd., Stage 2 Review and Variance of Decision 23848-D01-2020, AltaLink Management Ltd. 2019-2021 General Tariff Application, Proceeding 25870, November 19, 2020.

182 Exhibit 24964-X0609, CCA argument, paragraphs 767-772, PDF pages 240-242.

183 Decision 25870-D01-2020, paragraph 22, also referencing Bulletin 2016-16.

Commission finds that the CCA's two alternatives lacked detail with respect to implementation. It was also unclear, as evidenced by Mr. Madsen's reference to these alternatives as "novel,"[184] that there was in fact any wider acceptance of them by other jurisdictions. Accordingly, the Commission has afforded no weight to these alternatives in evaluating the reasonableness of ATCO Electric's forecast depreciation expense.

213. With the exception of the accounts discussed in further detail below, the Commission accepts the changes proposed by ATCO Electric to its depreciation study accounts as described above, and all life-curve and net salvage percentage recommendations in the depreciation study.

214. In the sections that follow, the Commission makes determinations on life-curve or net salvage proposals for the depreciation study accounts at issue. ATCO Electric is directed to implement these findings and to update its depreciation expense calculations in its compliance filing.

215. A summary of recommended and approved depreciation parameters is set out in Appendix 3 to this decision.

8.1 Examination of average service lives

8.1.1 USA 353.00 – Substation Equipment

216. USA 353.00 – Substation Equipment, comprises approximately 30 per cent of ATCO Electric's depreciable plant with an original cost of $2.192 billion.[185]

217. ATCO Electric proposed to decrease the average service life and survivor curve (life-curve) parameters for this account from the currently approved 53-R3 to 49-R3. This was based largely on general comments made by ATCO Electric's management and operations staff and on a curve-fitting exercise of comparing actual retirement data points to the smooth survivor curve associated with the proposed 49-R3, as compared to the approved 53-R3.

218. ATCO Electric explained that while its management and operational staff viewed that current substation buildings should last longer and require less maintenance, this specific consideration was applicable to only 21 per cent of the assets in USA 353.00.[186]

Commission findings

219. The Commission declines to approve a 49-R3 life-curve. The recent transmission infrastructure build (the big build) between 2013 and 2018 resulted in capital additions of $1.2 billion to this account, and represents more than half of the total plant currently in service. In tandem with the timing of these capital additions were three years of large asset retirements totalling $35 million in 2016 to 2018 and two asset dispositions totalling $12.5 million (ATCO Electric did not provide further information for the latter of these) as compared to total asset retirements of $63 million for this account since 1960.

220. In its consideration of ATCO Electric's proposed reduction to average service life, the Commission has placed more weight on the magnitude of the capital additions that would reasonably be expected to at a minimum, support, if not extend, the existing average service life

[184] Exhibit 24964-X0464, CCA-AUC-2020AUG28-037(c), PDF page 145.
[185] Exhibit 24964-X0033.02, Depreciation study, Account 353 – Transmission Substation, PDF pages 18-20.
[186] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-050, PDF pages 327-330.

of USA 353.00, as opposed to a three-year period of asset retirements that is influencing the results of the retirement rate analysis and curve-fitting exercise.

221. In the absence of compelling support for why the large number of newly constructed assets is expected to experience a shortened average service life in the future, the Commission considers it reasonable that the average service life for this account should be at least equal to that currently approved for this account.[187]

222. For these reasons, ATCO Electric is directed to use its currently approved 53-R3 for USA 353.00 – Substation Equipment in its compliance filing.

8.1.2 USA 353.02 – HVDC Substation

223. USA 353.02 – HVDC Substation comprises approximately eight per cent of ATCO Electric's depreciable plant with an original cost of $592 million.[188]

224. Since the time of its last depreciation study, ATCO Electric combined this previously established HVDC Substation account with the McNeill converter substation assets, which had historically been held in a separate substation account. The HVDC Substation account contains assets related primarily to the Eastern Alberta Transmission Line (EATL) Project that was completed in 2015 and will now also include the McNeill Substation assets.

225. The currently approved life-curve parameters for the HVDC Substation account is 53-R3 (whereas the approved parameters for the McNeill Substation assets is 45-R2.5). ATCO Electric proposed to reduce the life-curve parameter for this now-combined account to 43-R2.5.

226. Concentric acknowledged that in the combined account, the retirement experience related to the McNeill Substation assets is less relevant and was therefore not afforded significant weight in determining an average service life. Further, given that most assets were added to this account in 2015, there was little actuarial data available to complete a retirement rate analysis. Instead, ATCO Electric management and operational staff examined service life by major component and determined an overall 40-year life expectancy. Concentric recommended that a slightly longer life estimate would be appropriate and proposed 43-R2.5.

227. The UCA rejected ATCO Electric's proposal to change the life-curve for USA 353.02 – HVDC Substation to 43-R2.5 because there were no meaningful HVDC technical documents supporting the proposed 43-year life estimate. The UCA also considered that ATCO Electric's analysis of HVDC by major component lacked detail. The UCA recommended that ATCO Electric be directed to maintain the currently approved 53-R3 for this account until more experience is gained with asset retirements.

Commission findings

228. ATCO Electric stated that in determining a reduction in service life of 10 years in the current proceeding, it relied on both technical documents and experiences gained by operating

[187] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-050(b), PDF page 330.
[188] Exhibit 24964-X0033.02, Depreciation study, Account 353.02 – HVDC Substation, PDF pages 21-23.

and maintaining HVDC assets since the 1980s and more recently, by interacting with contractors and other HVDC facility owners and operators, including planning of the EATL project.[189]

229. The Commission notes that this information was at ATCO Electric's disposal at the time ATCO Electric first established USA 353.02 – HVDC Substation and when it received Commission approval of a 53-R3 life-curve on the basis of mirroring the USA 353.00 life-curve. It is not apparent why ATCO Electric did not use the technical documents and operational experience at the time USA 353.02 was established; yet it now proposes to rely on what is essentially the same information to conclude that the life-curve has changed substantially.

230. Nonetheless, the Commission accepts that, based on the component life analysis conducted by ATCO Electric and the comments of Concentric, it is reasonable to shorten the average service life for this account – but not to the extent proposed by ATCO Electric given the lack of actual retirement experience. ATCO Electric is directed to implement a 50-R3 for USA 353.02 – HVDC Substation in its compliance filing.

8.1.3 USA 353.10 – Communication Equipment

231. USA 353.10 – Communication Equipment comprises approximately four per cent of ATCO Electric's depreciable plant with an original cost of $278 million.[190]

232. ATCO Electric proposed to change the life-curve parameters for this account from the currently approved 25-R2 to 25-R3. This recommendation was based on a retirement rate analysis including the visual fit of the proposed smooth survivor curve with actual company data and based on discussions held between Concentric and ATCO Electric's management and operational staff who confirmed that a 25-R3 was reasonable. Concentric's analysis concluded that while there was a range of service lives between five and 50 years applicable to the various assets for this account, a 25-year service life was a better representation of the historical and future life expectations.

233. The UCA recommended that ATCO Electric be directed to incorporate life-curve parameters of 30-R2.5 for USA 353.10 on the basis that Concentric agreed that those parameters provided a better mathematical fit to the actual company data, compared to a 25-R3.[191]

Commission findings

234. The Commission is not convinced by the argument of the UCA that a better mathematical fit should be the primary rationale for extending the average service life to 30 years for this account.

235. The Commission considers that there is other pertinent information, such as the analysis provided by Concentric and the results of the retirement rate analysis included in the depreciation study, that supports ATCO Electric's proposed life-curve parameters for this account, and approves a life-curve of 25-R3 for USA 353.10 – Communications.

[189] Exhibit 24964-X0398.01, AET-UCA-2020MAY29-004, PDF pages 46-51.
[190] Exhibit 24964-X0033.02, Depreciation study, Account 353.10 – Communication, PDF pages 23-24.
[191] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF pages 27-30.

8.1.4 USA 354.00 – Towers

236. USA 354.00 – Towers comprise approximately 16 per cent of ATCO Electric's depreciable plant with an original cost of $1,213 million.[192]

237. ATCO Electric proposed to decrease the life-curve parameters for this account from the currently approved 65-R4 to 60-R3. This recommendation was in part based on the removal from USA 354.00 of all data pertaining to steel towers constructed to ISO 502.2 specification into a separate USA 354.01 – Towers - ISO Rule 502.2 Compliant.

238. In addition, since the time of ATCO Electric's last depreciation study, USA 354 recorded early retirements of $14.1 million in assets as a result of customer requests, and now comprises virtually all retirements experienced. The UCA argued that the inclusion of these customer-requested retirements skew the results of Concentric's retirement rate analysis, and proposed that the Commission reject the analysis and maintain the current life-curve of 65-R4. As an alternative, the UCA submitted that any Commission consideration of a retirement rate analysis should be on the basis of a truncation of data that supports a 65-R3 life-curve.[193]

Commission findings

239. The Commission is not convinced by the argument of the UCA that retirement of assets related to customer requests should be ignored as a cause of mortality. The Commission considers that in determining whether a reduction to average service life is reasonable, greater weight should be placed on the fact that the retirement rate analysis for USA 354.00 no longer includes the actuarial data now transferred to USA 354.01.

240. For these reasons, the Commission approves the retirement rate analysis prepared by Concentric in its depreciation study as support for ATCO Electric's proposed life-curve of 60-R3 for USA 354.00 – Towers.

8.1.5 USA 354.01 – Towers - ISO Rule 502.2 Compliant

241. USA 354.01 – Towers - ISO Rule 502.2 Compliant comprises approximately 16 per cent of ATCO Electric's depreciable plant with an original cost of $1,235 million.[194]

242. Prior to 2013, these ISO Rule 502.2 compliant towers were held jointly in USA 354, which had approved life-curve parameters of 65-R4. In compliance with Direction 21 of Decision 20272-D01-2016,[195] USA 354.01 was established to include only ISO Rule 502.2 compliant towers.

243. The newly established USA 354.01 account contains no historical retirement data and therefore it was not possible to conduct a retirement rate analysis for the purpose of estimating an average service life. Accordingly, ATCO Electric proposed life-curve parameters for the newly

[192] Exhibit 24964-X0033.02, Depreciation study, Account 354.00 – Towers, PDF pages 25-26.
[193] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF pages 16-19.
[194] Exhibit 24964-X0033.02, Depreciation study, Account 354.01 – Towers – ISO 502.2, PDF pages 26-29.
[195] Decision 20272-D01-2016, Direction 21, paragraph 424, PDF page 95.

established USA 354.01 of 67-R2.5 based on discussions with management and operational staff and information contained in a document identified as "502.2 life expectancy overview."[196]

244. The UCA rejected ATCO Electric's statement that its proposal for 67-R2.5 was consistent with and relied heavily on the same 67-R2.5 approved for AltaLink, on the basis that AltaLink's approval was implicit in a negotiated settlement that did not address these specifics. The UCA stated that ATCO Electric did not provide evidence demonstrating an Iowa R2.5 curve (which implies a higher frequency of retirement of assets in the early (young) ages) relative to an Iowa R4 curve and therefore, the proposed R-2.5 was not applicable in the current circumstances.[197]

245. The UCA concluded that "while the face value of the average service life for the account is proposed to marginally increase from 65 year [*sic*] to 67 years, changing the dispersion from R4 to R2.5 increases [2020 annual] depreciation expenses by $3.9 million as calculated by AET."[198]

Commission findings

246. While the Commission finds an increase in average service life to 67 is reasonable for the assets in USA 354.01 which have been constructed to a higher functional specification, it agrees with the UCA that ATCO Electric has neither supported the necessity for a change to a R2.5 curve, nor explained why early retirements stemming from "foreign object impacts, vandalism and sabotage events or customer driven increases to capacity"[199] would be more applicable to this account, rather than USA 354.00 for which ATCO Electric requested an R3 curve parameter.

247. For these reasons, ATCO Electric's proposed R2.5 curve is denied. ATCO Electric is directed to implement a life-curve of 67-R3 for USA 354.01 – Towers - ISO Rule 502.2 Compliant in its compliance filing.

8.1.6 USA 355.00 – Poles

248. USA 355.00 – Poles comprises approximately 10 per cent of ATCO Electric's depreciable plant with an original cost of $719 million.[200]

249. ATCO Electric proposed to decrease the life-curve parameters for this account from the currently approved 60-R2 to 55-R2 because "Discussions with AET's operational and management staff indicated that the historical fit of the Iowa 55-R2 is a reasonable expectation for Transmission Plant Poles and Fixtures.…"[201]

250. The UCA recommended that ATCO Electric be directed to maintain the currently approved 60-R2 for USA 355.00. The key issue was whether it was appropriate for ATCO Electric to revise the average service life estimate upward by five years in one depreciation

[196] Exhibit 24964-X0033.02, Depreciation study, Appendix 3 – 502.2 Life Expectancy Overview, PDF pages 490-497.
[197] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF pages 20-22.
[198] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF page 20, in reference to Exhibit 24964-X0398.01, AET-UCA-2020MAY29-006(a), PDF page 66.
[199] Exhibit 24964-X0033.02, Depreciation study, PDF page 497.
[200] Exhibit 24964-X0033.02, Depreciation study, Account 355 – Poles, PDF pages 29-30.
[201] Exhibit 24964-X0033.02, Depreciation study, PDF page 29.

study, followed by a reversal of those five years in the next, despite no material or projected change in the life expectations.[202]

Commission findings

251. The Commission declines to approve a 55-R2 life-curve for USA 355.00.

252. At the time of ATCO Electric's last depreciation study, the Commission approved, for USA 355.00, a requested increase in average service life (to the approved 60 years) based, in part, on comments from ATCO Electric operational staff that indicated that a 60-year life was reasonable.[203]

253. In response to a Commission IR in the current proceeding concerning the apparent change in its operational staff's view, ATCO Electric clarified that no material changes related to construction or maintenance had occurred since the last depreciation study, but that the current study now includes more frequent weather events and bulk system capital upgrades that necessitated asset retirements; data that it said was not available nor included in the previous study.[204]

254. Despite the proposed change to a 55-year average service life noted at PDF page 29 of the current depreciation study, comments made by ATCO Electric during management and operations interviews included the following statement:

> ATCO think[s] that 60 years is a reasonable average service life for poles. The future of poles will look like the past, and there is no evidence to suggest otherwise.[205]

255. Given the conflicting evidence found within ATCO Electric's depreciation study, the Commission is not persuaded to change the currently approved life-curve parameters for this account. ATCO Electric is therefore directed to maintain its approved life-curve of 60-R2 for USA 355.00 – Poles in its compliance filing.

8.2 Examination of net salvage per centages

8.2.1 USA 353.00 – Transmission Substation

256. ATCO Electric proposed to increase the net salvage percentage for USA 353.00 – Transmission Substation from the currently approved -15 per cent, to -20 per cent.

257. Concentric's examination of historic net salvage costs between 1970 and 2018 indicated that net salvage, as a percentage of the original cost of the assets retired each year, was -34 per cent overall. In general, 2018 indicated a reduction in all annual, three-year and five-year net salvage percentages, and there appeared to be less fluctuation in the most recent three years.

[202] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF page 26.

[203] Decision 20272-D01-2016, paragraph 450, PDF page 98: "However, taking into consideration the comments of ATCO Electric operational personnel that a 60-year life per wooden pole is reasonable and representative of the observed service life,321 the Commission will accept this evidence as the basis for approving a life-curve combination of 60-R2 for Account 453 (USA 355) – transmission – poles and fixtures (wooden), as filed.)"

[204] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-054, PDF pages 342-343.

[205] Exhibit 24964-X0033.02, Depreciation study, PDF page 484.

A comparison of peer Alberta utilities indicated net salvage percentages ranging from -10 to -20 per cent.[206]

258. Discussions held between Concentric and ATCO Electric management and operations staff indicated that the currently approved -15 per cent would not be sufficient for future expectations for this account. The traditional net salvage analysis indicated that -35 per cent would be reasonable; however, Concentric viewed a change from -15 to -20 per cent established a gradual and more moderate increase.[207]

Commission findings

259. The Commission finds the proposed increase to -20 per cent for USA 353 – Transmission Substation to be reasonably supported by the recent stability of the historical net salvage percentages and approves it.

8.2.2 USA 353.02 – HVDC Substation

260. ATCO Electric proposed to increase the net salvage percentage for USA 353.01 – Substation from the currently approved -15 per cent, to -20 per cent.

261. Discussions held between Concentric and ATCO Electric operations and management staff indicated that the currently approved -15 per cent would not be sufficient for future expectations for this account. Concentric was of the view that it would be reasonable to continue to mirror the net salvage percentage proposed for USA 353.00 – Transmission Substation, and similarly proposed a change from -15 to -20 per cent as a gradual and more moderate increase.[208] A comparison of peer Alberta utilities indicated a net salvage percentage of -20 per cent.[209]

262. The UCA recommended that ATCO Electric be denied a change to its currently approved net salvage percentage for USA 353.02 to match that of USA 353, given there was no evidence showing that the cost to remove an HVDC Substation (USA 353.02) should be at least equal to the removal costs for an AC Substation (USA 353).[210]

Commission findings

263. The Commission does not accept the rationale provided by the UCA for denying ATCO Electric's requested increase in its negative net salvage percentage. In the absence of actual retirement and cost-of-removal costs in USA 353.02 (HVDC Substation), it is reasonable to mirror the net salvage percentage for USA 353.00 (AC substations). For this reason, the Commission approves a net salvage of -20 per cent for USA 353.00 – Transmission Substation.

8.2.3 USA 354.00 – Towers

264. ATCO Electric proposed to increase the net salvage percentage for USA 354.00 – Towers from the currently approved -25 per cent, to -30 per cent.

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206 Exhibit 24964-X0289.01, AET-CCA-2019DEC16-031(j).
207 Exhibit 24964-X0033.02, Depreciation study, Account 353 – Transmission Substation, PDF pages 18-20 and 137-138.
208 Exhibit 24964-X0033.02, Depreciation study, Account 353.02 – HVDC Substation, PDF pages 21-23.
209 Exhibit 24964-X0289.01, AET-CCA-2019DEC16-031(j).
210 Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF pages 35-38.

265. Concentric's examination of historical net salvage costs between 1995 and 2018 indicated that net salvage, as a percentage of the original cost of the assets retired each year, was -8 per cent overall. In general, there was a reduction in all annual, three-year and five-year net salvage percentages in 2018, including those equivalent percentages indicated at the time of the last depreciation study. A comparison of peer Alberta utilities indicated net salvage percentages ranging from -5 to -17 per cent.[211]

266. Discussions held between Concentric and ATCO Electric operations and management staff indicated that the currently approved -25 per cent would not be sufficient to address future expectations for this account. Concentric viewed a proposed change from -25 to -30 per cent as a conservative, but nonetheless appropriate step.[212]

Commission findings

267. The Commission declines to approve ATCO Electric's request to increase the negative net salvage percentage for USA 354.00. The net salvage analysis indicates a general reduction in net salvage percentage for this account, and the currently approved -25 per cent net salvage already exceeds that of the peer Alberta utility comparator of -17 per cent. For these reasons, ATCO Electric is directed to maintain the use of its approved -25 per cent net salvage for USA 354.00 – Towers in its compliance filing.

8.2.4 USA 354.01 – Towers - ISO Rule 502.2 Compliant

268. ATCO Electric proposed to increase the net salvage percentage for USA 354.01 – Towers – ISO Rule 502.2 Compliant from the currently approved -25 per cent, to -30 per cent.

269. Discussions held between Concentric and ATCO Electric operations and management staff indicated that the currently approved -25 per cent would not be sufficient for future expectations for this account because of their bigger and more robust nature. Given that there has been no net salvage expense recorded for this account, Concentric viewed it would be reasonable to continue to mirror the net salvage percentage proposed for USA 354.00 – Towers (for which a change from -25 to -30 per cent was similarly proposed as a gradual and more moderate increase), notwithstanding that it was a conservative estimate.[213] A comparison of peer Alberta utilities indicated a net salvage percentage of -17.[214]

270. The UCA recommended that ATCO Electric be denied its requested -30 per cent net salvage because Concentric did not support why the greater asset and removal cost, in absolute terms, should necessarily translate into an increased net salvage percentage. The UCA stated that simply because the assets are bigger and more robust does not mean they should be more costly to remove.[215]

Commission findings

271. The Commission declines to approve ATCO Electric's request to increase the negative net salvage percentage for USA 354.01. It accepts that in the absence of actual retirement and removal costs in USA 354.01 (ISO Rule 502.2 compliant towers) it is reasonable to mirror the

[211] Exhibit 24964-X0289.01, AET-CCA-2019DEC16-031(j).
[212] Exhibit 24964-X0033.02, Depreciation study, Account 354.00 – Towers, PDF pages 25-26 and 141.
[213] Exhibit 24964-X0033.02, Depreciation study, Account 354.01 – Towers – ISO 502.2, PDF pages 26-29.
[214] Exhibit 24964-X0289.01, AET-CCA-2019DEC16-031(j).
[215] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF pages 40-41.

net salvage percentage for USA 354.00 (towers). For this reason, ATCO Electric is directed to use a net salvage of -25 per cent for USA 354.01 – Towers – ISO Rule 502.2 Compliant in its compliance filing.

8.2.5 USA 355.00 – Poles

272. ATCO Electric proposed no change to the net salvage percentage for USA 355.00 – Poles from the currently approved -90 per cent.

273. Concentric's examination of historic net salvage costs between 1970 and 2018 indicated that net salvage, as a percentage of the original cost of the assets retired each year, was an overall -165 per cent. For all annual, three-year and five-year net salvage percentages, there was a significant fluctuation in the percentages examined, and while 2016-2018 showed lower negative net salvage percentages, there was no discernable downward trend observed. A comparison of peer Alberta utilities indicated net salvage percentages ranging from -50 to -53 per cent.[216]

274. Discussions held between Concentric and ATCO Electric operations and management staff indicated that the currently approved -90 per cent would not be sufficient for future expectations for this account given the variations shown in the net salvage analysis. Concentric considered that a -200 per cent net salvage would be reasonable, but that it would be appropriate to continue with a -90 per cent considering the historical indications of the last three years.[217]

275. In its response to Direction 27 of Decision 20272-D01-2016, ATCO Electric submitted information on why ATCO Electric's net salvage costs for poles (at -90 per cent) was so much higher than AltaLink's (at -53 per cent). ATCO Electric explained its current processes and salvaging activities for a number of projects on a per-structure basis compared to the per-structure costs for equivalent AltaLink projects, and concluded that its net salvage costs for the projects examined were shown to be comparable to AltaLink's.

276. The UCA recommended a reduction to ATCO Electric's currently approved net salvage of -90 per cent based on ATCO Electric's assertion that -90 per cent is reasonable because it is within a range of net salvage percentages for its peer utilities. At issue is ATCO Electric's statement that AltaLink's approved net salvage is -100 per cent. In addressing this error in argument, the UCA asserted that ATCO Electric's net salvage percentage should be equivalent to that of its peer, AltaLink, and recommended that ATCO Electric be directed to reduce its net salvage per cent to -53 for USA 355 to reflect the amount last approved for AltaLink under a traditional net salvage methodology.[218]

Commission findings

277. The Commission declines the UCA's recommendation to reduce ATCO Electric's for USA 355 from -90 per cent net salvage to -53 per cent on the basis of a peer comparator error. In the circumstances, the Commission continues to rely on the results of the traditional net salvage study for USA 355, which indicates the currently approved -90 per cent net salvage remains reasonable at this time, and accepts ATCO Electric's continued use of its currently approved net salvage percentage of -90 for USA 355 – Poles.

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[216] Exhibit 24964-X0289.01, AET-CCA-2019DEC16-031(j).
[217] Exhibit 24964-X0033.02, Depreciation study, Account 355 – Poles, PDF pages 29-30 and 142-143.
[218] Exhibit 24964-X0445, Evidence of Mahmudov and Lee, PDF pages 42-43.

9 Affiliate transactions and revenue offsets

278. Revenue offsets that form part of revenue requirement include amounts related to facility charges, affiliate revenues, services to outside parties and other revenue. Facility charges serve to recover costs incurred by ATCO Electric when constructing and operating facilities on sites having an industrial system designation. Affiliate revenue results from ATCO Electric personnel providing services to ATCO affiliates and includes recovery of the direct cost of the service as well as overhead charges in accordance with the Inter-Affiliate Code of Conduct. Affiliate cost of goods sold, which are included in operations costs, are offset by affiliate revenues. Services to outside parties (SOP) are performed by ATCO Electric staff at the request of external parties for projects such as road moves or work for the AESO. SOP cost of goods sold are included in operating costs and offset by SOP revenue.[219]

279. On December 18, 2019, following Commission approval in Decision 24792-D01-2019, the transaction for the sale of Alberta PowerLine to an external party closed. Alberta PowerLine was previously reported as an affiliate transaction, but has been forecast under the SOP category for the test period.[220]

280. The table below provides a breakdown of revenue offsets by component:

Table 16. Revenue offset forecasts by component 2017-2022

	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast
	($ million)					
Facility charges	0.5	0.5	-	-	-	-
Affiliate revenues	30.7	26.5	25.6	4.4	4.5	4.6
Services to outside parties	-	0.4	0.4	0.4	0.4	0.4
Services to outside parties – Alberta Powerline	-	-	0.1	13.8	8.2	9.2
Other Revenue	0.7	1.9	0.7	0.5	0.5	0.5
Total revenue offsets	32.0	29.3	26.8	19.1	13.6	14.7

Source Exhibit 24964-X0002.03, GTA schedules, Schedule 8-1 Transmission Revenue Offsets.

281. ATCO Electric's application update did not include an update to its revenue offset forecast. ATCO Electric stated that its forecast is based on the best available information of the services to be provided and the resources required. Any forecast changes to revenue offsets would also result in corresponding changes to affiliate cost of goods sold, resulting in an immaterial impact on revenue requirement.[221]

282. The CCA expressed concern that the affiliate services forecast is understated and that positions providing affiliate services, which have not been forecast, are not being backfilled.[222]

[219] Exhibit 24964-X0001.03, application update, paragraphs 275-284, PDF pages 305-307.
[220] Exhibit 24964-X0001.03, application update, paragraphs 281-283, PDF pages 306-307
[221] Exhibit 24964-X0001.03, application update, paragraph 11, PDF pages 10-11.
[222] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 360. PDF page 146.

283. ATCO Electric challenged the CCA's recommendations, stating that it does not have a "no back-fill policy" and that if an internal position is fully reassigned to affiliate-related work, backfilling would be required to ensure internal utility work is completed.[223]

Commission findings

284. The Commission considers that the proposed adjustments to the revenue offsets of $0.1 million for ATCO Energy Solutions and ATCO Gas, and $0.3 million for ATCO Power, are relatively small and do not warrant adjustment based upon materiality thresholds.

285. The Commission finds the CCA request for further evidence to support ATCO Electric's backfilling-practices, including the type of contractor used to backfill the affiliate work performed by ATCO Electric internal resources in 2019,[224] is not reasonable given the work required and the expected benefit to the Commission from having such information available. In addition, use of historical information, including 2019, to establish forecast levels has limited value based on the variability of affiliate services as shown in the table above. Further, variance information on amounts greater than $0.5 million is already available in GTA Schedule 8-1.1[225] and provides a sufficient breakdown of the contributing factors of these material variances.

286. For the above reasons, the CCA's recommendations are denied. The Commission approves the forecast revenue offset as filed for the test years.

10 Opening rate base and capital projects

10.1 2020 opening rate base

Transmission Capital Maintenance

287. The actual capital additions to rate base for the Transmission Capital Maintenance (TCM) Program for 2018 and 2019 were $91.3 million and $129.2 million, respectively.[226] The total 2020 opening rate base includes a negative adjustment of $8.1 million[227] that was incorporated in Proceeding 24805[228] to reflect directions 3, 6 and 8 in Decision 22742-D01-2019.

288. Based on its review of the record in relation to the actual capital additions to rate base for the TCM Program for 2018 and 2019 and the resulting opening rate base for 2020, the Commission approves ATCO Electric's TCM 2020 opening rate base as filed.

Direct-assigned capital

289. The actual capital additions to rate base for ATCO Electric's direct assigned capital project categories for 2018 and 2019 were $151.2 million and $130.1 million, respectively.[229]

[223] Exhibit 24964-X0535, AET rebuttal evidence, paragraphs 8 and 13, PDF pages 157 and 164.
[224] Exhibit 24964-X0436, CCA evidence Part 1, paragraph 358. PDF page 145.
[225] Exhibit 24964-X0002.03, Schedule 8-1.1.
[226] Exhibit 24964-X0002.03, Schedule 10-4.
[227] Exhibit 24964-X0001.03, application update, Table 10.15, PDF page 352.
[228] Proceeding 24805, AET 2018-2019 GTA Compliance Filing.
[229] Exhibit 24964-X0002.03, Schedule 10-4.

290. Based on its review of the record in relation to the actual capital additions to rate base for these direct assigned capital projects, the Commission approves the opening rate base amounts as filed, subject to any adjustments in a future DACDA application.

Isolated generation projects

291. The actual capital additions to rate base for ATCO Electric's transmission isolated generation project categories for 2018 and 2019 were $3.2 million and $5.8 million, respectively.[230] These amounts reflect a reduction to opening rate base because the reconfiguration of the Indian Cabins microgeneration plants into a renewable hybrid plant did not proceed as planned in the last test period.[231]

292. Based on its review of the record pertaining to the actual capital additions to these capital projects, the Commission approves the 2020 opening rate base amounts.

General property and equipment

293. ATCO Electric proposed to add actual capital additions of $20.2 million and $7.8 million to rate base for 2018 and 2019, respectively, for the General Property and Equipment,[232] Software (IT), and General Property and Equipment - Other project categories.[233]

294. Calgary raised concerns with all of the IT projects in general.[234] The CCA raised a concern specific to the addition to rate base of $2.8 million[235] for the IT Oracle E-Business Upgrade Project as an amount over and above the amount originally forecast for this project.[236]

295. The Commission approved the Oracle E-Business Upgrade Project, which migrated ATCO Electric's Enterprise Resource Planning and Human Capital Management systems from on-premise systems to a Cloud-based system, in the ATCO Electric 2018-2019 GTA (Decision 22742-D01-2019). The project went into service as planned in October 2018, with an increase to $10.5 million from the approved forecast of $7.7 million. ATCO Electric explained that the variance was due to additional change management and training requirements and increased internal resource costs for requirements gathering, solution testing and process documentation. ATCO Electric submitted that these activities were needed to drive user adoption and ensure its employees were able to use the system to its full potential to derive the intended efficiencies.[237]

296. The CCA did not support the $2.8 million addition to rate base primarily because, in its view, training costs are not permitted to be capitalized under IFRS accounting standards.[238]

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230 Exhibit 24964-X0002.03, Schedule 10-4.

231 Exhibit 24964-X0027.01, application, Appendix 4, Opening Rate Base, Table 4-A.18, PDF page 21, and Exhibit 24964-X0002.03, Schedule 10-4.

232 General Property and Equipment consists of software, tools, equipment, vehicles and building capital projects and grouped into two categories, General Property and Equipment - Software, and General Property and Equipment - Other.

233 Exhibit 24964-X0027.01, application, Appendix 4, Opening Rate Base, Table 4-B.2, PDF page 23, Table 4-B.4, PDF page 24.

234 Exhibit 24964-X0611, Calgary argument, paragraphs 84-85, PDF page 23.

235 Updated by ATCO Electric to a total of $2.7 million in Exhibit 24964-X0027.01, application, Appendix 4, Opening Rate Base, Table 4-B.3, PDF page 24.

236 Exhibit 24964-X0609, CCA argument, paragraphs 508-510, PDF pages 164-165.

237 Exhibit 24964-X0144, GPE IT Project: Oracle E-Business Upgrade supplementary information, PDF pages 1-2.

238 Exhibit 24964-X0609, CCA argument, paragraph 509, PDF page 165.

297. The Commission accepts ATCO Electric's evidence[239] because it demonstrates that the costs for training are "directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management," which is the criteria that training costs must meet to be capitalized under IFRS. Given that the Oracle E-Business Upgrade Project is a software capital project that requires people to use it to make it operational, the Commission accepts ATCO Electric's assertion that without the development of user training tools such as modules, videos and reference guides, utilization of the new Cloud-based system would not have occurred as intended by ATCO Electric.

298. Given the above, and based on its review of the record in relation to the actual capital additions to rate base for the General Property and Equipment projects for 2018 and 2019 and the resulting opening rate base for 2020, the Commission approves ATCO Electric's General Property and Equipment 2020 opening rate base as filed.

10.2 Transmission capital maintenance projects

299. ATCO Electric's TCM Program comprises asset replacement and maintenance projects, and is designed to manage transmission assets in accordance with life cycle asset strategies.

300. ATCO Electric's 2020-2022 forecast capital expenditures for each of its programs and projects in its TCM Program is set out below:

Table 17. 2020–2022 TCM Program forecast capital expenditures

Project/Program Description	2020	2021	2022
	($ million)		
Transmission Capital Maintenance – Substations	36.4	29.9	27.9
Transmission Capital Maintenance – Lines	18.5	14.1	10.9
Transmission Rights-of-Way	7.4	5.7	4.6
Substation Rebuilds	7.4	17.5	18.0
Transmission Line Ground Clearance	2.5	2.5	2.5
Transmission Lines Rebuild (Partial & Complete)	6.5	7.0	12.7
Kearl 9L101	10.4	3.9	-
Transmission Double Circuit	0.4	0.4	0.4
Temporary Line Relocation- 9L66/9L92 (Phase 2 Joslyn - Muskeg)	4.8	2.4	
Telecommunication System	15.5	16.3	17.0
System Improvements and Regulatory Compliance	2.7	2.5	2.6
Projects/Programs at issue in this proceeding			
ATCO 9L32/66 Line Move	-	16.6	10.1
Transmission Isolated Generation	12.6	17.0	8.5
Wildfire Mitigation and Grid Resiliency	9.0	19.1	24.2
Total TCM capital expenditures	**134.1**	**154.9**	**139.4**

Source: Exhibit 24964-X0001.03, application update, Table 2a, PDF page 24, and Table 10.6, PDF page 338.

301. With the exception of the capital projects discussed below, the Commission finds that the forecast costs are reasonable and approves them as filed.

[239] Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraphs 1-5, PDF pages 169-171.

10.2.1 Wildfire mitigation and grid resiliency

302. ATCO Electric proposed a new capital program, the Wildfire Mitigation and Grid Resiliency Program (WMP), to address increasing wildfire-related risks observed in Alberta and in North America.[240] Although ATCO Electric currently manages wildfire-related risks through its existing programs (such as Lines Capital Maintenance and Right-of-Way Maintenance), the WMP projects focus on the approaches ATCO Electric has undertaken to minimize the risk of damage to transmission assets from wildfires and to minimize the wildfire risks associated with transmission assets.[241]

Risk analysis

303. ATCO Electric explained that the WMP prioritizes related activities in areas adjacent to its assets where there is a higher potential wildfire impact risk. In 2019, ATCO Electric started a preliminary wildfire risk assessment, which consisted of ranking the relative risk of a wildfire event occurring across its service area. The relative ranking was based on fuel volatility and lightning frequency, which ATCO Electric considers to be two of the most influential explanatory variables in wildfire risk. ATCO Electric stated that it is undertaking the Burn P3 Risk Assessment Model Development Project, which consists of sophisticated modelling and analytical processes to identify risks at a finer scale.[242]

304. For all TCM project business cases, including WMP projects, ATCO Electric provided a risk analysis that uses a risk matrix to calculate the risk factor. The risk factor is the product of the probability that an event will occur and the level of impact of the event. To support the need for the WMP, ATCO Electric determined the overall risk factor to be extreme (12). It explained that the risk factor of 12 is based on its assessment that the probability of a large-scale wildfire is Somewhat Likely (3), given the California wildfires in 2018, and that the impact would be Severe (4) because wildfires have the potential to cause damage to its assets, reduce system reliability, cause significant third-party property damage and have the potential to cause human harm.[243]

305. The risk factor for each project in the WMP, as determined by ATCO Electric, is set out in the table below.

[240] Exhibit 24964-X0143.02, WMP business case, PDF pages 1301-1302.
[241] Exhibit 24964-X0143.02, WMP business case, PDF page 1315; Exhibit 24964-X0252.02, AET-AUC-2019DEC16-008, PDF pages 26-29.
[242] Exhibit 24964-X0374.01, AET-AUC-2020MAY29-007, PDF pages 27-37.
[243] Exhibit 24964-X0143.02, WMP business case, PDF page 1330.

Table 18. Wildfire Mitigation and Grid Resiliency Program project risk factors

Wildfire Mitigation and Grid Resiliency program/projects	Assessment of probability	Impact rating	Risk factor
Burn-P3 Risk Assessment Model Development	Not applicable		
Storm & Event-Related System Operations Response	Somewhat Likely (3)	Severe (4)	Extreme Risk (12)
Wood Pole Fire Protection	Somewhat Likely (3)	Significant (3)	Moderate Risk (6)
Transmission Line Component Replacements in High Risk Fire Areas	Somewhat Likely (3)	Severe (4)	Extreme Risk (12)
Transmission Right-of-Way and Facility Wildfire Mitigation	Somewhat Likely (3)	Severe (4)	Extreme Risk (12)
Telecommunications and Teleprotection Upgrades	Somewhat Likely (3)	Significant (3)	Extreme Risk (12)
Transmission Line Rebuilds in High Risk Fire Areas	Somewhat Likely (3); critical crossing: Somewhat Unlikely (2)	Significant (3); critical crossing: Severe (4)	High (9); critical crossing: High (8)

Source: Exhibit 24964-X0143.02, WMP projects business cases.

306. ATCO Electric indicated that it applied professional judgment in determining the probability and impact to evaluate the need and urgency for its forecast WMP expenditures.

307. The CCA disagreed with the level of probability assessed by ATCO Electric. It submitted that ATCO Electric has heavily overstated the risk level, because it has not quantified or calculated the risk based on historical data or operational experience, but rather on qualitative factors that include "an element of fear."[244]

Forecast expenditures

308. The WMP comprises seven projects, four of which are similar in scope to existing ongoing TCM programs or projects, as identified in the table below.

Table 19. Wildfire Mitigation and Grid Resiliency Program forecast capital expenditures

Ongoing TCM programs/projects	2020	2021	2022	Equivalent programs/projects under Wildfire Mitigation and Grid Resiliency	2020	2021	2022
	($ million)				($ million)		
				Burn-P3 Risk Assessment Model Development	0.2	-	-
				Storm and Event-related System Operations Response	-	0.44	0.5
				Wood Pole Fire Protection	0.9	1.0	1.0
Transmission Line	25.0	21.1	23.6	Transmission Line Component Replacements in High Risk Fire Areas	7.3	3.7	3.8
Transmission Right-of-Way Maintenance and Widening	7.4	5.7	4.6	Transmission Right-of-Way and Facility Wildfire Mitigation	0.5	5.0	5.0
Telecommunication System	15.5	16.3	17.0	Telecommunications and Teleprotection Upgrades	-	4.5	4.6
Transmission Lines Rebuild (Partial & Complete)	6.5	7.0	12.7	Transmission Line Rebuilds in High Risk Fire Areas	0.1	4.5	9.3
Total	**54.4**	**50.1**	**57.9**		**9.0**	**19.1**	**24.2**

Source: Exhibit 24964-X0001.03, application update, PDF page 338, Table 10.6; Exhibit 24964-X0143.02, WMP business case, PDF page 1333.

[244] Exhibit 24964-X0609, CCA argument, paragraphs 847-848, PDF pages 265-266.

309. ATCO Electric originally forecast WMP expenditures to be $9.9 million in 2020, $27.1 million in 2021 and $32.4 million in 2022. In its application update, ATCO Electric revised its forecast expenditures to be $9.0 million in 2020, $19.1 million in 2021 and $24.2 million in 2022. The cost reductions were based on restrictions related to the COVID-19 pandemic and consideration of new information concerning the condition of certain assets contemplated for replacement or rebuild.

Commission findings

310. In the following paragraphs, the Commission sets out its findings with respect to the WMP as a whole, and then assesses each individual project within the WMP.

311. The Commission acknowledges that ATCO Electric based its probability assessment and impact rating on past experiences of large-scale wildfire events in Alberta such as the High Level, Slave Lake, and Fort McMurray wildfires, as well as wildfire events in British Columbia and California, and that such events could result in damage and severe impacts to structures, communities and people's lives. The Commission also accepts that ATCO Electric has a large concentration of assets in forested areas that could potentially be at a higher risk for a wildfire event. And, although the Commission is not convinced by the CCA that a 1 in 3990 year chance of a catastrophic wildfire is reason enough to reject ATCO Electric's risk analysis,[245] an attempt by ATCO Electric to use historical data and specific operational experience to support its conclusions would have assisted the Commission in its determinations.

312. While the Commission finds ATCO Electric's ranking of the relative risk of a wildfire event occurring across its service area based on fuel volatility and lightning frequency to be reasonable, it is not persuaded that ATCO Electric's preliminary wildfire risk assessment is sufficiently mature to adequately predict the probability level of that risk, nor to target the most likely location of a wildfire. ATCO Electric, itself, characterized the assessment as "preliminary," and "a quick and simple approach" and further stated that "although this analysis was largely data-driven, the methods used and the interpretation of the data were often based on applying professional judgement to statistical processes."[246] In this respect, the Commission agrees with the CCA that ATCO Electric's approach to determining both the probability of higher risk for a wildfire, and the need and urgency for its forecast WMP expenditures lacks quantitative data and relies excessively on professional judgment.

313. ATCO Electric's evaluation of alternatives, identified as (1) status quo, (2) mitigate wildfire risks or (3) complete work on all assets, was also insufficient. The Commission finds the alternatives presented by ATCO Electric are unhelpful because ATCO Electric did not undertake a cost-benefit analysis of its WMP projects, or for any of the alternatives provided.

314. Based on the above, the Commission accepts that there is a need for ATCO Electric to undertake measures to minimize the risk of damage to transmission assets from wildfires and to minimize the wildfire risks caused by its transmission assets. While the Commission appreciates that recent large-scale wildfire events may have caused ATCO Electric to propose the WMP, the Commission is not persuaded that a separate program is required. It considers that increased wildfire risk can be addressed within existing TCM programs and projects, including the prioritization of wildfire mitigation activities amongst the other factors that are considered by

[245] Exhibit 24964-X0609, CCA argument, paragraphs 847-848, PDF pages 265-266.
[246] Exhibit 24964-X0143.02, WMP business case, PDF pages 1312-1313.

ATCO Electric when prioritizing existing TCM project activities. In this way, the advancement of work could be more effectively assessed.

315. During this proceeding, ATCO Electric reassessed all capital replacement programs, including projects under the WMP. This resulted in significant reductions to the proposed scope and forecast expenditures in the WMP; however, ATCO Electric indicated that the safety of the system would still be maintained.[247] The Commission finds that these refinements could have been undertaken before ATCO Electric filed its application and regardless of the recent economic conditions in Alberta and the COVID-19 pandemic.

316. For the reasons above, the Commission denies the WMP. Concerns raised in the individual WMP projects are addressed in the subsections that follow, along with the related Commission findings, including approval of forecast capital expenditures for specific projects.

The Burn-P3 Risk Assessment Model Development and Storm and Event-related System Operations Response projects

317. The BURN-P3 (probability, prediction, and planning) simulation model software, available from the Canadian Forest Service, is a new fire management tool that provides a quantitative assessment of wildfire susceptibility for large fire-prone areas. ATCO Electric indicated that the Burn-P3 Risk Assessment Model Development Project consists of developing the use of this software.[248] The Storm and Event-Related System Operations Response Project, as described by ATCO Electric, will develop pre-event fire risk analysis and assessment, real-time storm and fire events monitoring, risk assessment and response, and enhance storm and related event real-time situational awareness.[249]

318. The Commission approves both the WMP Burn-P3 Risk Assessment Model Development and Storm and Event-Related System Operations Response projects as filed. The Commission finds that the former project will allow ATCO Electric to refine its risk analysis and the latter project will allow ATCO Electric to better respond to wildfire events. However, given the low level of expenditures and that the latter project is also driven by the risk of major storm events and not solely by wildfire events, ATCO Electric is directed to add these two projects in a combined amount of $1.14 million to an applicable existing TCM program or programs.

Wood Pole Fire Protection Project

319. The WMP Wood Pole Fire Protection Project consists of applying a product to the pole that, by blocking air, prevents it from burning. ATCO Electric explained that a wildfire can burn through the grass and low-lying brush along a transmission right-of-way with minimal damage to the transmission line. This will reduce the risk of outages and number of pole replacements required in the event of a wildfire. The forecast expenditures to treat approximately 4,500 poles each year are $0.9 million in 2020, $1.0 million in 2021 and $1.0 million in 2022. The installations will be aligned with wood pole test and treat cycles for maximum efficiency.[250]

[247] Exhibit 24964-X0143.02, WMP business case, PDF pages 1299 and 1301.
[248] Exhibit 24964-X0143.02, WMP business case, PDF pages 1319-1320.
[249] Exhibit 24964-X0143.02, WMP - Storm & Event-Related System Operations Response (Appendix C) business case, PDF page 1357.
[250] Exhibit 24964-X0143.02, WMP - Wood Pole Fire Protection (Appendix D) business case, PDF pages 1371-1375.

320. Given the approximate cost of $200 per pole, the risk reduction achieved and the opportunity for the pole treatment to be combined with another activity, the Commission agrees with the CCA that the WMP Wood Pole Fire Protection Project is a cost-effective program,[251] and therefore approves it as filed. ATCO Electric is directed to add this project in the amount of $2.9 million to an applicable existing TCM Program.

Transmission Line Component Replacements in High Risk Fire Areas Project

321. ATCO Electric indicated that the WMP Transmission Line Component Replacements in High Risk Fire Areas Project advances the replacement of 6,000 wood crossarms with steel crossarms on specific transmission lines located in high wildfire risk areas, as determined by ATCO Electric's preliminary wildfire risk assessment. These wood crossarms are near or at the end of life and would otherwise be identified for replacement in the next test period as part of ATCO Electric's ongoing TCM Lines Capital Maintenance Program.[252]

322. In its evidence, the CCA recommended that crossarms should be replaced based on inspection and condition assessment, rather than wildfire risk and could be prioritized under the existing TCM Lines Capital Maintenance Program. In its view, ATCO Electric's evidence does not justify replacing crossarms based on wildfire risks and historical performance shows that ATCO Electric's current maintenance programs are successfully minimizing the risk of crossarm failures. The CCA refuted ATCO Electric's assessment of Extreme Risk, noting that over the past 18 years, ATCO Electric recorded a total of 22 crossarm failures and there is no record of any of these failures resulting in a wildfire. Accordingly, the CCA recommended that the forecast capital expenditures of $14.8 million not be approved.[253]

323. Although the Commission agrees with ATCO Electric that an assessment of risk should not only consider those crossarms that actually fail, it is persuaded by the CCA's evidence that crossarms should be replaced based on inspection and condition assessment, and that crossarm replacement could be prioritized overall under the existing TCM Lines Capital Maintenance Program without the need for any advancement of replacements in this test period.

324. For these reasons, the Commission denies ATCO Electric's WMP Transmission Line Component Replacements in High Risk Fire Areas Project and directs ATCO Electric to remove its forecast costs in the amount of $14.8 million for this project in its compliance filing.

Transmission Right-of-Way and Facility Wildfire Mitigation Project

325. ATCO Electric explained that the WMP Transmission Right-of-Way (ROW) and Facility Wildfire Mitigation Project (WMP ROW Project) is an advancement of ATCO Electric's existing TCM Transmission ROW and Facility Widening Program and an expansion of FireSmart activities[254] that took place in 2014 and 2015 through the same program. ATCO Electric stated that the WMP ROW Project will address 72 kV and 144 kV line ROW

[251] Exhibit 24964-X0446, CCA evidence Part 2, paragraph 55. PDF page 15.

[252] Exhibit 24964-X0143.02, WMP - Component Replacements in High Risk Fire Areas Project (Appendix F) business case, PDF pages 1402 and 1408.

[253] Exhibit 24964-X0446, CCA evidence Part 2, paragraphs 214-219, PDF pages 56-57; Exhibit 24964-X0609, CCA argument, paragraphs 874 and 878-879, PDF pages 277, 279-280.

[254] FireSmart activities include hazard tree, grasses and shrubs removal and expansion of gravel pads at substations and telecommunication towers to create larger fire-proofing footprints at facilities with an elevated wildfire risk.

widening.[255] ATCO Electric's intention, prior to the preliminary wildfire risk assessment, was to address the ROW widening proposed in the WMP ROW Project over the course of the next 10 years.[256]

326. The CCA submitted that ATCO Electric provided no evidence that tree fall-in outages during the fire season are of sufficient frequency to cause a material increase in the probability of a transmission line triggered wildfire. In its view, the probability of a tree fall-in occurring is very low, as indicated in a response to a CCA IR, which shows that over the past 18 years, ATCO Electric recorded only seven tree contacts on its 72 kV and 144 kV lines, which are the lines targeted under the WMP ROW Project. The CCA recommended that the forecast capital expenditures of $10.5 million not be approved because the additional spending has not been justified.[257]

327. ATCO Electric disagreed with the CCA's assessment that the probability of a tree fall-in occurring is very low. In its view, the evidence showing 18 tree contacts recorded between 2002 and 2019 refutes the CCA's risk assessment. It further noted that the greatest cause of wildfires attributable to the power line industry is vegetation to conductor interactions.[258]

328. The Commission agrees that ATCO Electric did not provide sufficient evidence to justify the requested expenditures. It observes that ATCO Electric's rejection of the CCA's risk assessment is based on data that includes 240 kV lines which, as the evidence shows, are not part of the WMP ROW Project. Given the above, the Commission finds ATCO Electric's plans to address the ROW widening proposed in the WMP ROW Project over the course of the next 10 years in its existing TCM ROW widening program to be reasonable. This determination does not preclude ATCO Electric from prioritizing ROW widening on 72 kV and 144 kV lines under the existing TCM ROW widening program in the 2020-2022 test period.

329. For these reasons, the Commission denies ATCO Electric's WMP Transmission ROW and Facility Wildfire Mitigation Project as a stand-alone project and directs ATCO Electric to remove its forecast costs in the amount of $10.5 million for this project in its compliance filing.

Telecommunications and Teleprotection Upgrades Project

330. ATCO Electric indicated that the WMP Telecommunications and Teleprotection Upgrades Project (WMP Telecom Project) consists of several projects that will strengthen the telecommunications network, such that telecommunication paths can be dynamically readjusted around fire damaged telecommunication infrastructure to allow critical services to be maintained

[255] Exhibit 24964-X0143.02, WMP - Transmission RoW and Facility Wildfire Mitigation (Appendix B) business case, PDF pages 1340-1341.

[256] Exhibit 24964-X0143.02, WMP - Transmission RoW and Facility Wildfire Mitigation (Appendix B) business case, PDF page 1344.

[257] Exhibit 24964-X0609, CCA argument, paragraphs 865-867, PDF pages 274-275; Exhibit 24964-X0574.02, AET-CCA-2020OCT09-068(a) Attachment 1, PDF page 115.

[258] Exhibit 24964-X0621, AET reply argument, paragraph 252, PDF page 85; Exhibit 24964-X0252.02, AET-AUC-2019DEC16-002(b)(ii), PDF page 4, Table 1 shows that from 2008 to 2019, the 43 wildfire ignition points that were closest to an ATCO Electric's asset, 51.2% were caused by vegetation to conductor interaction.

within an acceptable latency.[259] This project is an advancement of ATCO Electric's existing TCM Telecom Capacity and Reliability Upgrade Project.[260]

331. The CCA agreed that the impact of losing teleprotection and operational data is serious, however it refuted ATCO Electric's probability assessment that damage to telecommunication facilities from wildfires is "somewhat likely." The CCA noted ATCO Electric's evidence that in the last 10 years, there has been no damage caused by wildfires to telecommunication facilities, or any interruption to services. In the CCA's view, the upgrades to improve route diversity for the risks from wildfire damaged telecommunication infrastructure is not needed, and the forecast capital expenditures of $9.1 million should not be approved.[261]

332. ATCO Electric viewed the CCA's position as "unsafe and unreasonable," because during recent events its telecommunication facilities experienced several near misses, and although no damage occurred, this was due to the efforts of its personnel deployed to protect the sites from the wildfire, at risk to their health and personal safety.[262]

333. The Commission acknowledges that losing teleprotection and operational data is serious, and any efforts to address such losses may place ATCO Electric personnel at risk. However, given the preliminary nature of ATCO Electric's risk assessment, the Commission is not convinced that the specific assets targeted in the WMP Telecom Project are located in areas that are most at risk for a future wildfire event. In addition, similar to its findings related to the WMP Transmission Line Component Replacements in High Risk Fire Areas Project, the Commission finds that the projects in the WMP Telecom Project could be prioritized overall under the existing TCM Telecommunication System Program, for which the Commission has approved $48.8 million for the 2020-2022 test period.

334. For these reasons, the Commission denies ATCO Electric's WMP Telecommunications and Teleprotection Upgrades Project as a stand-alone project and directs ATCO Electric to remove its forecast costs in the amount of $9.1 million for this project in its compliance filing.

Transmission Line Rebuilds in High Risk Fire Areas Project

335. ATCO Electric's WMP Transmission Line Rebuilds in High Risk Fire Areas Project (WMP Rebuilds Project) consists of rebuilding certain transmission lines and replacing or upgrading critical lines that cross a coulee or river.[263] ATCO Electric forecast $11.5 million for rebuilding certain transmission lines and $2.4 million for rebuilding crossings at certain locations.[264]

336. The CCA did not support the forecast expenditures in the WMP Rebuilds Project, except for those associated with the critical crossing upgrades. The CCA viewed these costs as unjustified given that well-maintained transmission lines and rights-of way do not pose a

[259] Exhibit 24964-X0143.02, WMP - Telecommunication and Teleprotection Upgrades (Appendix E) business case, PDF pages 1382-1383.
[260] Exhibit 24964-X0252.02, AET-AUC-2019DEC16-009, PDF pages 30-32.
[261] Exhibit 24964-X0609, CCA argument, paragraphs 880-883, PDF pages 280-281; Exhibit 24964-X0574.02, AET-CCA-2020OCT09-068(a), PDF page 114; Exhibit 24964-X0269.05, AET-CCA-2019DEC16-078(d), PDF page 661.
[262] Exhibit 24964-X0621, AET reply argument, paragraph 256, PDF page 86.
[263] Exhibit 24964-X0143.02, PDF page 1416.
[264] Exhibit 24964-X0143.02, PDF page 1447.

significant risk of initiating wildfires, and that hardening lines to resist wildfires is not cost effective because the amount of damage repairs over the past few years is much lower than the cost to rebuild the lines. In the CCA's view, rather than replacing all components, transmission line components in poor condition can be addressed through existing TCM programs.[265] The CCA did not object to the critical crossing upgrades component of the project, given the long outages and high risks associated with failed line crossings, and the relatively small ($2.4 million) portion of the total cost.[266]

337. ATCO Electric explained that its proposed upgrades are supported by the Canadian Electricity Association Utility Wildfire Mitigation Guide[267] and its "Best Practice Guide" recommendations, which state: "Identify lines that require rebuilds. Old lines need to be replaced to ensure safety and meet new operating standards and fire mitigation standards" and "Components in poor asset health may be frayed, worn down, or contaminated and should be prioritized for replacement or upgrade. Investment in upgrading line components and insulating assets will reduce the potential for powerlines to cause wildfire ignition."[268]

338. It is not clear to the Commission how ATCO Electric distinguishes the need to rebuild a specific line for wildfire mitigation purposes from the need to rebuild a line because of asset health and age considerations. In addition, ATCO Electric indicated that in light of their lower system impact, the lines would have been forecast for replacement in existing TCM programs in the next test period.[269] Without additional evidence (i.e., the identification by ATCO Electric of lines in need of urgent replacement), the Commission finds ATCO Electric's plan to address transmission line components in poor condition through existing TCM programs, which was made prior to the preliminary wildfire risk assessment, to be reasonable. The Commission also finds that the business case does not suggest a sufficient number of reasonable alternatives and that those considered ((1) status quo; (2) replace all assets located in high wildfire risk areas; and (3) complete engineering analysis on the identified scope and prioritize replacements that are approaching or at the end of life)[270] were not adequately analyzed. For these reasons, the Commission denies the forecast expenditures related to the rebuilding of the transmission lines portion of ATCO Electric's WMP Rebuilds Project and directs ATCO Electric to remove the $11.5 million of forecast costs for this portion of the project in its compliance filing.

339. Concerning critical crossing upgrades, as highlighted by the CCA and in consideration of the challenges described by ATCO Electric related to river crossing failures with the Fort McMurray wildfire events,[271] the Commission accepts that such failures could result in long outages. The Commission considers that the $2.4 million forecast expenditures are reasonable relative to the level of risk they are intended to address, and accordingly approves them. ATCO Electric is directed to add this amount to the applicable existing TCM Program.

[265] Exhibit 24964-X0446, CCA evidence Part 2, paragraphs 207-208, PDF page 55.
[266] Exhibit 24964-X0609, CCA argument, paragraphs 871-872, PDF pages 276-277.
[267] Exhibit 24964-X0536, AET rebuttal to CCA Part 02, Section 02, Attachment 1.
[268] Exhibit 24964-X0614, AET argument, paragraphs 265-266, PDF page 92.
[269] Exhibit 24964-X0143.02, PDF pages 1444-1445.
[270] Exhibit 24964-X0143.02, WMP Transmission Line Rebuilds in High Risk Fire Areas (Appendix G) business case, PDF pages 1443-1445.
[271] Exhibit 24964-X0252.02, AET-AUC-2019DEC16-004, PDF pages 8-17.

10.2.2 Isolated generation projects

340. ATCO Electric requested approval of capital expenditures for the maintenance and capacity needs of ATCO Electric's isolated generation assets in the amount of $12.6 million in 2020, $17.0 million in 2021 and $8.5 million in 2022.[272] ATCO Electric explained that its generation fleet is comprised of the facilities it operates pursuant to the IGUCCR, which serve isolated communities, and generation units that provide either the primary source of power at its remote telecommunication sites that are not grid connected, or backup power for its substations and/or telecommunication sites.[273]

341. ATCO Electric identified three categories of programs: Install Alternate Power Supply and Renewable Energy Solutions;[274] Refurbish/Replace Engines and Turbines;[275] and Isolated Operations Capital Maintenance,[276] which consist of the following projects:

- The interconnection of the Garden River, Jasper Palisades, Narrows Point isolated communities and the interconnection of the Chipewyan Lake isolated community along with the Buffalo Creek telecommunication tower to the AIES.

- The reconfiguration of Peace Point, Touchwood and Fawcett River power plants into renewable hybrid plants.

- The addition of a fifth isolated generating unit at the Fort Chipewyan Third Lake Power Plant pursuant to Section 27(1) of the IGUCCR.

- The connection of the Fort Chipewyan Solar Generation Facility (Phase 2)[277] as a community generation project and the associated installation of a battery energy storage system[278] and controls at the Fort Chipewyan Third Lake Power Plant pursuant to Section 8(2) of the *Small Scale Generation Regulation* (SSGR).

Commission findings

342. The Commission has reviewed the information on the record with respect to ATCO Electric's isolated generation projects. Subject to a further discussion of three projects below, the Commission is satisfied that, given that generation in isolated communities is considered a proxy for transmission facilities,[279] the forecast costs for the isolated generation projects as applied for by ATCO Electric are reasonable and approves them.

Touchwood Power Plant

343. The Touchwood Power Plant is an isolated power plant supplying power to an ATCO Electric telecommunications site. ATCO Electric proposed to convert the diesel plant into a renewable hybrid plant (conversion) in 2021 at a cost of $1.2 million. Other alternatives included

[272] Exhibit 24964-X0001.03, application update, Table 10.13, paragraph 381, PDF page 345.
[273] Exhibit 24964-X0143.02, PDF page 1136.
[274] Exhibit 24964-X0143.02, PDF pages 1133-1229.
[275] Exhibit 24964-X0143.02, PDF pages 1230-1247.
[276] Exhibit 24964-X0143.02, PDF pages 1248-1289.
[277] Decision 24857-D01-2020: Three Nations Energy GP Inc.– Fort Chipewyan Solar Generation Facility (Phase 2), Proceeding 24857, January 15, 2020.
[278] Decision 24856-D01-2020: ATCO Electric Ltd., Battery Energy Storage System Addition at Fort Chipewyan Third Lake Power Plant, Proceeding 24856, February 14, 2020.
[279] Decision 2001-42, PDF page 4.

maintaining the status quo, which requires four-year capital maintenance of the diesel plant at a cost of $530,000, and an option to interconnect to the AIES via a distribution interconnection at a cost of $2.4 million.[280]

344. An economic assessment prepared by ATCO Electric shows that cost differences between the alternatives are minimal: a $200,000 difference in the cumulative present value (CPV) of the revenue requirement at year 25 for ATCO Electric's preferred conversion option ($3.5 million), compared to the interconnection option ($3.7 million), and a $100,000 difference in the CPV between ATCO Electric's preferred conversion option ($3.5 million), compared to the status quo option ($3.4 million).[281]

345. While the Commission observes that the renewable hybrid plant option is not 100 per cent renewable because it includes the requirement for a diesel engine in contingency circumstances,[282] it agrees that if ATCO Electric were to convert to a renewable hybrid plant, it would result in reduced fuel consumption and O&M expenditures, and in lower emissions.

346. Reduced fuel consumption and lower emissions would similarly be realized if ATCO Electric constructed a 22 km interconnection to the AIES, as proposed in its interconnection option. Further, the O&M expenditures for the distribution line would be borne by the distribution facility owner (DFO), and an interconnection would improve system reliability.[283] This is notwithstanding ATCO Electric's statement that under the interconnection option, the existing diesel plant at the Touchwood Power Plant would have to be retained for back-up power because the telecommunication tower is part of ATCO Electric's microwave backbone and carries critical SCADA information back to the system operating centre.[284]

347. That said, ATCO Electric did not explain how it would record the asset or the associated contribution amount from the DFO.

348. As mentioned above, the $200,000 difference in costs between the conversion and interconnection options is minimal. Given that under the conversion option there would be continued reliance on fossil fuels, the advantage of improved reliability that results from interconnection weighs in favour of approving the interconnected option as the optimal option being presented.

349. For these reasons, the Commission declines to approve ATCO Electric's proposed renewable hybrid plant conversion option and approves the alternate option to connect to the AIES via a distribution interconnection. ATCO Electric is directed to incorporate these findings in its compliance filing and to clarify the amount of the DFO contribution included in the forecast $2.4 million capital cost under the interconnection option.

280 Exhibit 24964-X0143.02, PDF pages 11511168.
281 Exhibit 24964-X0143.02, Table 4, PDF page 1157 and 1168.
282 In Exhibit 24964-X0143.02, Table 3 on PDF page 1155, AET noted that the configuration to a hybrid plant would consist of a solar photovoltaic array (or other renewable energy solution), along with a battery energy storage system and diesel engines.
283 Exhibit 24964-X0143.02, PDF pages 1151-1158.
284 Exhibit 24964-X0143.02, PDF page 1151.

Indian Cabins, Steen River and Fort Chipewyan Third Lake power plants

350. Under Section 27(1) of the IGUCCR, a TFO must apply to the Commission for approval of the replacement or addition of an isolated generating unit. Once the unit is approved, the Commission must include its associated costs in the TFO's tariff under Section 27(2) of the IGUCCR. This section applies to a number of projects in ATCO Electric's application, as described below.

351. A DFO is also required to obtain, on an annual basis, written confirmation from the Commission that the list of isolated generating units and related information included in the schedules in the IGUCCR is up-to-date.[285] The Commission most recently confirmed the status of ATCO Electric's isolated generating units in Proceeding 26177 on December 23, 2020.[286]

352. As a preliminary matter, the Commission notes that in Decision 22742-D01-2019, it approved ATCO Electric's proposal to reconfigure the Indian Cabins Power Plant to a renewable hybrid plant.[287] In this application, ATCO Electric also proposed to reconfigure the Steen River Power Plant to a renewable hybrid plant.[288] However, as a result of not obtaining government funding, it later withdrew its proposal to reconfigure both the Indian Cabins and Steen River power plants into renewable hybrid plants.[289] The Commission approves the withdrawal of these two reconfiguration projects from the GTA, and directs ATCO Electric to remove the forecast costs for 2020-2022, related to these reconfiguration projects, in its compliance filing.

353. The Indian Cabins Power Plant comprises isolated generating units CUL 457 and CUL 458, which are identified in Part A of the schedules in the IGUCCR.

354. ATCO Electric formally filed a Section 27(1) IGUCCR application for an engine replacement at CUL 458.[290] In its 2018-2019 GTA,[291] ATCO Electric argued that due to the significant distance of the Indian Cabins Power Plant from existing distribution facilities, interconnection is not a technically viable option. While this evidence was not re-filed in the current proceeding, in the Commission's view, the connection of Indian Cabins Power Plant to the AIES is not economic, and therefore the costs associated with CUL 458 are recoverable in ATCO Electric's tariff. Accordingly, the Commission approves the CUL 458 engine replacement of $0.2 million in 2021.

355. ATCO Electric advised in an IR response[292] that it proceeded with the engine replacement of CUL 457 in the amount of $0.1 million in 2020. Specifically, ATCO Electric explained that it replaced a diesel engine, rather than a propane engine that was included in the original scope of work in the business case filed in the 2018-2019 GTA. The Commission observes that the status update provided to the Commission in Proceeding 26177 identified that CUL 457 was "removed" and replaced with CUL 605 in the updated Part A of the schedules in the IGUCCR.[293]

[285] Section 27.2(2) of the IGUCCR.
[286] Proceeding 26177, Update to the IGUCCR, December 23, 2020.
[287] Decision 22742-D01-2019, paragraphs 172 and 175.
[288] Exhibit 24964-X0143.02, PDF pages 1150-1164.
[289] Exhibit 24964-X0374.01, AET-AUC-2020MAY29-06(a)-(b), PDF pages 17-18, and Exhibit 24964-X0143.02, PDF page 1148.
[290] Exhibit 24964-X0143.02, PDF pages 1232-1247.
[291] Proceeding 22742, Exhibit 22742-0171.04, Table 11, PDF pages 1035-1036.
[292] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-064(b), PDF page 371.
[293] Proceeding 26177, Exhibits 26177-X0001 and 26177-X0003.

Based on the evidence filed, the Commission questions the reasonability of replacing an engine and subsequently removing the entire isolated generating unit within a short time period. Accordingly, ATCO Electric's request for $0.1 million to replace CUL 457 in 2020 is denied, and the Commission directs these costs to be removed from ATCO Electric's forecast in its compliance filing.

356. As indicated above, the Commission understands that ATCO Electric removed a 20-kilowatt (kW) diesel generation designated unit as CUL 457, and added a 20-kW diesel generation unit designated as CUL 605. However, in the current application, ATCO Electric did not file a Section 27(1) IGUCCR application seeking approval to replace CUL 457 with CUL 605, nor did it seek to recover any costs associated with the addition of CUL 605. As a result, the Commission approves no costs related to the replacement of CUL 457 with CUL 605.

357. ATCO Electric filed a Section 27(1) IGUCCR application requesting that a mobile isolated generating unit (mobile unit) be added to the Fort Chipewyan Third Lake Power Plant from Part C of the IGUCCR schedules.[294] It explained that the electrical demand has grown at the Fort Chipewyan Third Lake Power Plant, and that the mobile unit would act as an additional contingency unit should the station no longer meet the N-1-1 contingency requirement under peak conditions. It also indicated that the mobile unit would be re-deployed in a semi-permanent configuration at the Fort Chipewyan Third Lake Power Plant.

358. A review of ATCO Electric's alternatives shows that its proposal to utilize a mobile unit at a cost of $0.4 million is a lower overall capital cost option than installing a fifth permanent isolated generating unit at a cost of $4.0 million.[295] While an option to connect to the AIES was not presented in the business case, the Commission accepts that the Fort Chipewyan Third Lake Power Plant is geographically remote,[296] and that an interconnection option would not likely be economic in the circumstances. As a result, the Commission approves ATCO Electric's request to move a mobile unit to the Fort Chipewyan Third Lake Power Plant. ATCO Electric has not identified which mobile unit it will deploy. In its compliance filing, the Commission directs ATCO Electric to identify, in Part C of the schedules in the IGUCCR, which unit will be removed from its mobile fleet and added to the Fort Chipewyan Third Lake Power Plant.

Fort Chipewyan Third Lake Power Plant

359. The Commission has previously found that the proposed battery energy storage addition at Fort Chipewyan is in an isolated community within the meaning of the IGUCCR, and is a community generating unit within the meaning of the SSGR.[297] While ATCO Electric relied on Section 8(2) of the SSGR as authority to recover costs associated with the battery energy storage addition, this provision references a DFO.[298] Nevertheless, the Commission finds that the Fort Chipewyan Third Lake power plant costs may be recovered under ATCO Electric's tariff

[294] Exhibit 24964-X0143.02, PDF page 1275.
[295] Exhibit 24964-X0143.02, PDF pages 1277-1284.
[296] AET stated that the Third Lake Generation Station, which powers the community of Fort Chipewyan, is physically isolated from the rest of Alberta, and is only accessible via air or in the winter time by ice road.
[297] Decision 24857-D01-2020, paragraph 26.
[298] Section 8(2) of the SSGR states: "(2) Costs incurred by the distribution owner under sections 5(3)(a)(ii) and 7(2) are costs associated with providing electric energy to customers in the isolated community under section 2(b) of the *Isolated Generating Units and Customer Choice Regulation* (AR 165/2003)."

because the community generating unit is owned by ATCO Electric, is located in an isolated community, and is considered a proxy for transmission facilities.

360. The Commission also finds that the forecast costs for the Fort Chipewyan Third Lake power plant are reasonable, and approves them as filed. Notwithstanding this finding, the Commission notes its prior finding that ATCO Electric Distribution, as distribution owner, was entitled to recover the estimated $60,000 cost to purchase the meter for this project.[299] While this cost is minimal in context, given the prior finding, it is not clear why this meter cost was included in ATCO Electric's request for cost recovery in this proceeding.[300] The Commission directs ATCO Electric to remove this cost from its forecast amounts in the compliance filing. If ATCO Electric is of the view that this cost should now be recovered from ATCO as a transmission owner, rather than ATCO as a distribution owner, in its Rate 32 (Generator Interconnection and Standby Power), it should explain why.

Commission comments on the quality of isolated generation information

361. In general, the Commission found the information filed by ATCO Electric for its isolated generation capital projects to lack clarity, resulting in additional discovery process and burden on Commission resources to understand the evidence.[301] This comment applies to both the level of detail provided and the ease, or lack thereof, with which each isolated generation capital project could be identified and traced through ATCO Electric's evidence.

362. In the Commission's view, all relevant information for each isolated generation project or subproject should have been provided in an organized fashion by ATCO Electric in its application from the outset of this proceeding. For greater efficiency going forward, in each future GTA, ATCO Electric is directed to prepare a construction work in progress (CWIP) continuity schedule comprising each isolated generation capital project and subproject, including costs on an actual basis for the prior test period and costs on a forecast basis for the prior and applied-for test periods. ATCO Electric is also directed to include the following information in its CWIP continuity schedule, for each identified isolated generation capital project and subproject: a project number, a brief description of the project, any contribution amounts, government funding amounts, and the identification of the applicable sections of the IGUCCR. If the IGUCCR does not apply, ATCO Electric is directed to include a brief description of what Commission approval is sought.[302]

10.2.2.1 Fuel costs

363. ATCO Electric stated that it owns and operates six diesel fuel-powered generation plants serving isolated communities. In addition to isolated community plants, ATCO Electric owns 69 isolated generating plants for substation and telecommunication power supply backup and four isolated plants for primary telecommunication power supply. Most of those plants are propane

[299] Decision 24857-D01-2020, paragraph 27.

[300] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-069, PDF page 385.

[301] See for example, AET's correction from its IR response provided in Exhibit 24964-X0567.01, AET-AUC-2020OCT08-018, PDF page 57, where AET indicated that CUL 458 was being replaced for Indian Cabins, as opposed to CUL 457 as provided in AET's IR response in Exhibit 24964-X0374.01, AET-AUC-2020MAY29-006(e), PDF page 20. Similarly, where AET proceeded with the engine replacement of CUL 457 in Exhibit 24964-X0185.07, AET-AUC-2019NOV25-064(b), PDF page 371, yet then removed CUL 457 in its schedule update to the IGUCCR in Proceeding 26177.

[302] Similar to the tables provided in Exhibit 24964-X0374.01, AET-AUC-2020MAY29-006(e), PDF pages 20-25, and Exhibit 24964-X0567.01, AET-AUC-2020OCT08-018, PDF pages 52-57.

fuelled and five are diesel fuelled.[303] ATCO Electric's actual and forecast fuel costs are set out in the table below:

Table 20. ATCO Electric – Actual and forecast fuel costs

	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast
	($ million)				
Isolated generation fuel	7.5	5.4	3.9	3.4	3.3
Transmission plants and propane fuel	0	0.1	0.1	0.1	0.1
Total	**7.5**	**5.5**	**4.0**	**3.5**	**3.4**
Increases/(Decreases) in test period		(2.0)	(1.5)	(0.5)	(0.1)
Impact of price	-	1.2	0.1	0.1	0.1
Impact of volume	-	(2.1)	(1.6)	(0.6)	(0.2)
Impact of carbon levy	-	-	-	-	-
Impact of one-time lump sum natural gas expense	-	(1.1)	-	-	-

Source: Exhibit 24964-X0001.03, application update, Table 4-1, paragraph 91, PDF page 139.

364. ATCO Electric stated that because it is pursuing the interconnections of Garden River, Jasper Palisades, and the Narrows Point isolated community sites, the interconnection of the Chipewyan Lake along with the Buffalo Creek tower to the AIES, and also reconfiguring the Peace Point, Fawcett River and Touchwood power plants into renewable hybrid plants, it forecast a decrease in diesel fuel consumption for the test period. ATCO Electric also removed the natural gas forecast for the test period due to the decommissioning of the Jasper Palisades Power Plant, which was powered by natural gas.[304]

365. ATCO Electric stated that its application update did not reflect the removal of the Indian Cabins and Steen River renewable hybrid plants[305] nor did it take into account the impacts of the federal government carbon tax effective January 1, 2020.[306]

Commission findings

366. The Commission finds that ATCO Electric did not reflect the most up-to-date information in its application update. Accordingly, in its compliance filing, the Commission directs ATCO Electric to update its fuel cost forecast and O&M costs to account for the effects of the removal of the Indian Cabins and Steen River renewable hybrid plants, and the effects of the carbon tax in its fuel cost forecasts.

10.2.3 ATCO 9L32/66 Line Move Project cost allocations

367. In order for Canadian Natural Resources Limited to mine and develop its resources in a certain area, it requested that ATCO Electric relocate two 240 kV lines, 9L32 and 9L66. ATCO Electric classified the project costs as a system cost and therefore did not include a customer contribution in its forecast.[307] ATCO Electric provided a general and financial analysis[308] that

[303] Exhibit 24964-X0001.03, application update, paragraph 89, PDF page 139.
[304] Exhibit 24964-X0001.03, application update, paragraphs 92-93 and 96, PDF pages 140 and 142.
[305] Exhibit 24964-X0001.03, application update, paragraph 100, PDF page 142.
[306] Exhibit 24964-X0001.03, application update, paragraph 93, PDF page 140.
[307] Exhibit 24964-X0001.03, application update, paragraphs 393-394, PDF pages 349-350.
[308] Exhibit 24964-X0143.02, TCM Project: ATCO 9L32/66 Line Move and Temporary Line Relocation – 9L66 (Phase 2 Joslyn – Muskeg) business case, Table 2.0-1, PDF page 917-919; Exhibit 24964-X0185.07, AET-AUC-2019NOV25-090(c) Attachment 1, PDF pages 447-463.

showed that in its view, the project meets the requirements of the 2003 relocation principles set out in Decision 2003-043.[309]

368. The Commission applies the general guidance provided by the 2003 relocation principles as a framework to guide its analysis in this decision. This approach is consistent with that recently applied by the Stage 2 panel in Decision 25282-D01-2020.[310]

369. The Commission accepts that the relocation of the lines is necessary to recover the mineable ore. It likewise accepts ATCO Electric's analysis that, absent the line move project, 271 million barrels of bitumen would not be mined, and an estimated royalty revenue of $678 million would not be realized. The Commission considers that the benefits of the line relocation outweigh the relocation costs to ratepayers of $41.5 million, and consequently finds that it is in the public interest for the costs of the ATCO 9L32/66 Line Move Project to be allocated to the system.

10.3 General Plant and Equipment IT projects forecast expenditures

370. ATCO Electric detailed its forecast General Plant and Equipment IT capital project expenditures and additions through the test period in the application.[311] The CCA raised issues with the Asset Management Program, and Enterprise Planning and Budgeting Cloud Service (EPBCS) project.

371. The Asset Management Program, which enhances ATCO Electric's asset management systems and processes, was approved in the ATCO Electric 2018-2019 GTA decision. The original target ISD was December 31, 2019, with an estimated cost of $12.4 million. ATCO Electric explained that the implementation date has been delayed to 2022 due to competing IT priorities and the significant organizational changes that took place in 2018. ATCO Electric stated that it expects the total project costs to be $12.4 million, as originally forecast.[312]

372. The EPBCS Project consists of implementing a Cloud-based finance system to support ATCO Electric's budgeting and forecasting processes. The capital costs of the EPBCS Project increased from the approved forecast of $1.2 million to $3.4 million. ATCO Electric provided the following reasons for the increase: integration complexities; redesigns to enable out-of-the-box functionality, rather than custom processes that would have resulted in higher maintenance and integration efforts; and additional change management and training requirements.[313]

373. The CCA recommended that the Commission disallow the forecast capital expenditure of $6.4 million for 2020-2022 for the Asset Management Program. The CCA considered the delay to be unreasonable, viewed the capitalized training costs to be inappropriate, did not consider

[309] Decision 2003-043: ATCO Electric Ltd., Fort McMurray/Crow Lake Areas 240 kV Transmission Facilities Application Dover to McMillan Phase II Part A Decision – Routing, Application 1284230, PDF page 18.
[310] Decision 25282-D01-2020: ATCO Electric Ltd., Stage 2 Review and Variance of Decision 22742-D01-2019 ATCO Electric Ltd. 2018-2019 Transmission General Tariff Application, Proceeding 25282, July 28, 2020.
[311] Exhibit 24964-X0144, GPE business cases.
[312] Exhibit 24964-X0144, GPE IT and Other Projects: Asset Management Program supplementary information, PDF pages 3-4.
[313] Exhibit 24964-X0144, GPE IT Project: Enterprise Planning and Budgeting Cloud Service (EPBCS) supplementary information, PDF pages 37-38.

that the incremental benefits of $0.3 million justified the continuation of the project, and doubted whether the savings were reflected in ATCO Electric's operating accounts forecast.[314]

374. The CCA specifically recommended a $1.3 million reduction to the EPBCS Project costs to account for the possibility that ATCO Electric may not have selected this project as the preferable option given the increase in costs. Further, in the CCA's view, ATCO Electric is including training and other post-implementation costs in its capital forecast that are not allowed under accounting principles.[315]

Commission findings

375. The Commission finds ATCO Electric's reasons for delaying the Asset Management Program reasonable and that the CCA's evidence,[316] which reanalyzes the project benefits and its conjecture over whether ATCO Electric has included associated savings in its forecast,[317] has no merit. The Commission agrees with ATCO Electric that the CCA's recommendations should be rejected given that the Asset Management Program was tested and approved in the 2018-2019 GTA and that ATCO Electric has confirmed that incremental savings in both O&M and capital have been reflected in the forecasts.[318]

376. Concerning the CCA's recommended $1.3 million reduction to the EPBCS Project, the Commission accepts ATCO Electric's variance explanations and finds that the CCA's evidence does not take all factors considered by ATCO Electric into account. The Commission also accepts ATCO Electric's submissions refuting the CCA's analysis, which assumes that maintaining the status quo is a viable option.[319] In this regard, an update to the Qualitative Considerations Table in the EPBCS Business Case was filed,[320] and in addition to costing information, demonstrates that ATCO Electric considered other factors, including data integrity, integration complexity, the stability of vendor support, and the potential and degree of business disruption for outages, upgrades or enhancements, in its analysis. Lastly, the Commission accepts ATCO Electric's evidence that an upgrade to the on-premise environment would have been required even if the status quo alternative were chosen, resulting in additional costs, manual workarounds and business interruptions due to the nature of the on-premise system.[321] The Commission's views on training costs are outlined in Section 10.1.

377. Given the above, the Commission approves the forecast General Plant and Equipment IT capital project expenditures and additions, including those amounts forecast for the Asset Management Program and EPBCS Project.

10.4 Direct assigned capital projects

378. Direct assigned capital projects are projects that are designed, built and operated by ATCO Electric as directed by the AESO. The projects are subject to separate Commission proceedings for which the AESO submits a needs identification document (NID) application for

[314] Exhibit 24964-X0436, CCA evidence Part 1, paragraphs 385-393, PDF pages 157-159.
[315] Exhibit 24964-X0609, CCA argument, paragraphs 528-531, PDF pages 171-172.
[316] Exhibit 24964-X0436, CCA evidence Part 1, paragraphs 389-391, PDF pages 158-159.
[317] Exhibit 24964-X0609, CCA argument, paragraph 525, PDF page 170.
[318] Exhibit 24964-X0621, AET reply argument, paragraph 302, PDF page 100; Exhibit 24964-X0535, AET rebuttal evidence to CCA, paragraph 3, PDF page 174.
[319] Exhibit 24964-X0614, AET argument, paragraphs 363-366, PDF pages 116-117.
[320] Exhibit 24964-X0535, AET rebuttal evidence, PDF page 179.
[321] Exhibit 24964-X0535, AET rebuttal evidence, paragraphs 1-4, PDF pages 176-179.

approval. ATCO Electric's forecast capital expenditures for its direct assigned capital projects are $95.9 million, $182.8 million and $172.8 million for 2020, 2021 and 2022, respectively.[322]

379. No concerns were raised regarding the direct assigned forecast capital expenditures, except for forecast expenditures for the CETO Project, which consists of 75 kilometres of new 240 kV double-circuit transmission line connecting two existing substations. ATCO Electric forecast capital expenditures for the CETO Project of $2.8 million in 2020, $49.3 million in 2021 and $57.7 million in 2022, for a total of $109.8 million in the test period.[323]

380. In its application update, ATCO Electric informed the Commission that the AESO filed a NID for the CETO Project on August 12, 2020, and that it did not update the forecast because the ISD is expected to be in Q2 of 2023 as originally planned.[324]

381. The CCA maintained that the CETO Project is a "contentious" project, affirmed by the numerous parties registered in the related facilities proceeding[325] that have expressed opposition to the project.

Commission findings

382. With the exception of the CETO Project, the Commission finds that the forecast costs for the direct assigned capital projects are reasonable. Direct assigned capital projects are subject to a deferral account. Consequently, the actual expenditures on these projects will be subject to a detailed prudence review in future DACDA applications prior to final acceptance of these costs.

383. The Commission observes that the CETO Project has experienced several delays,[326] and agrees with the CCA that there is some uncertainty in its progress. Given that the AESO has updated the ISD several times, most recently to January 26, 2024, the Commission does not accept ATCO Electric's statements that its forecast is "reasonable and appropriate" and that the "speculation of the CCA in this regard is unsubstantiated."[327]

384. The Commission finds that the timeframe associated with the forecast costs for the CETO Project is overly optimistic and not reasonably attainable given the approximate one-year delay in ISD cited in the AESO Progress Report. The Commission therefore directs ATCO Electric, in its compliance filing, to reduce its forecast expenditures for the 2020-2022 test period to 50 per cent of the total applied-for $109.8 million and to update all applicable schedules. Accordingly, the Commission approves CETO Project capital expenditures in the amount of $54.9 million for the years 2020-2022, which includes a forecast expenditure in the amount of $2.8 million in 2020.

10.5 Project identification

385. ATCO Electric advised the Commission that it no longer intended to use, post-implementation of its Oracle E-Business Upgrade Project (upgrade project), an appropriation

[322] Exhibit 24964-X0001.03, application update, Table 1a, PDF page 21.
[323] Exhibit 24964-X0051, CETO Project Summary, paragraph 2, PDF page 3.
[324] Exhibit 24964-X0001.03, application update, paragraph 32, PDF page 16
[325] Proceeding 25469, Central East Transfer-out Transmission Development Project.
[326] Exhibit 24964-X0051, CETO Project Summary, paragraphs 1 and 5, PDF pages 3 and 5; Exhibit 24964-X0052.02, CETO Project AESO-Monthly Reports, September 2020 Progress Report, PDF page 89; https://www.aeso.ca/assets/Uploads/Tx-System-Quarterly-Report-2020-Q4.pdf.
[327] Exhibit 24964-X0614, AET argument, paragraph 26, PDF page 15.

number for its non-direct assigned capital projects on documentation included in its GTAs such as the application, GTA schedules and business cases.[328] Instead, ATCO Electric indicated that a "written description of the categorized appropriation grouping"[329] provided sufficient information in both its GTA and annual Rule 005: *Annual Reporting Requirements of Financial and Operational Results* filings.

386. As part of the same upgrade project, ATCO Electric indicated that it would continue to incorporate the appropriation number as the initial five digits in the alphanumeric string field, followed by the appropriation description for its direct assigned projects. ATCO Electric submitted it was necessary to maintain this naming convention and continuity for AESO reporting requirements, and to match its appropriations for large capital projects with a corresponding AESO project number.[330]

Commission findings

387. The Commission disagrees with ATCO Electric's conclusion that there is no benefit in maintaining a separate number within the alphanumeric string for its non-direct assigned projects.[331] It finds that it is necessary to maintain the ability to follow a capital project through all stages of its construction as presented in ATCO Electric's GTAs and Rule 005 filings. This is irrespective of whether the project is at the stage of initial forecast and business case approval, construction, or testing of prudence upon project capitalization. Because project stages often span more than one test period, there is a risk that project identification relying on a project name alone could result in confusion and categorization of costs to the wrong project. This risk is of particular concern where ATCO Electric's internal naming convention changes between test periods.

388. For the reasons stated above, the Commission directs ATCO Electric to continue using, post-implementation of its upgrade project, a consistent appropriation number for each of its non-direct assigned capital projects on all documentation filed in its GTAs, including, but not limited to, the application, GTA schedules and business cases. For its non-direct assigned capital projects, the Commission directs ATCO Electric to incorporate an appropriation number as the initial five digits in the alphanumeric string field, followed by the appropriation description at the time of its next GTA, as has been done for its direct assigned projects.

11 Financing and income taxes

389. The Commission confirms that ATCO Electric's requested placeholder treatment of a deemed common equity ratio and return on equity for the years 2021 and 2022 of 37 per cent and 8.5 per cent, respectively, is now moot. These amounts have now been approved as final in decisions 24110-D01-2020[332] and 26212-D01-2021,[333] in the Commission-initiated 2021 generic cost of capital (GCOC) proceeding and 2022 GCOC proceeding, respectively. Accordingly, the

[328] Exhibit 24964-X0001.03, application update, paragraph 292, PDF page 319.
[329] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-061(a), PDF page 356.
[330] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-061(a), PDF page 356.
[331] Exhibit 24964-X0185.07, AET-AUC-2019NOV25-061(a), PDF page 356.
[332] Decision 24110-D01-2020: 2021 Generic Cost of Capital, Proceeding 24110, October 13, 2020.
[333] Decision 26212-D01-2021: 2022 Generic Cost of Capital, Proceeding 26212, March 4, 2021.

Commission directs ATCO Electric, to include a deemed common equity ratio and return on equity of 37 per cent and 8.5 per cent on a final basis, for the years 2021 and 2022, respectively.

390. The Commission also confirms ATCO Electric's continued use of the future income tax (FIT) method for federal income taxes and the flow-through method for provincial income taxes. The Commission acknowledges that the FIT method for federal income taxes is used by ATCO Electric to maintain an A credit rating and to support credit metric funds from operation/debt ratios of approximately 12.3 per cent in 2020, 12.4 per cent in 2021 and 12.5 per cent in 2022.

391. The Commission accepts ATCO Electric's forecast of federal and provincial income taxes for the years 2020-2022.

11.1 Provincial corporate income tax rate

392. In its application, ATCO Electric included placeholder amounts for provincial corporate income tax rates in the amounts of 10 per cent, nine per cent and eight per cent, for the years 2020, 2021 and 2022, respectively.

393. ATCO Electric explained that on June 28, 2019, the Alberta government introduced Bill 3: *Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act* and that, with the enactment of Bill 3, the general provincial corporate tax rate will be reduced from 12 per cent to eight per cent. While ATCO Electric indicated that it had incorporated this cut by forecasting provincial income tax reductions between 2020 and 2022, it is also aware that the government intended to make the eight per cent tax rate effective July 1, 2020. In IR responses, ATCO Electric advised that the impacts of updating for the as yet enacted provincial corporate tax rate of eight per cent resulted in reductions to revenue requirement of $0.9 million in 2020 and $0.7 million in 2021.[334]

394. ATCO Electric stated that because it was continuing to seek deferral treatment for statutory rates such as provincial corporate tax rates, any differences arising from changes to tax rates would be subject to true up at some point in the future.[335]

395. The CCA argued[336] that the impact to revenue requirement of the reduced tax rate was material and should be included in ATCO Electric's compliance filing rather than being trued up in a future deferral account application.

Commission findings

396. Bill 35: *Tax Statutes (Creating Jobs and Driving Innovation) Amendment Act, 2020,* amending the *Alberta Corporate Tax Act,* introduced a reduction, effective July 1, 2020, in the provincial corporate income tax rate to eight per cent. The Commission notes that Bill 35 received Royal Assent on December 9, 2020, and appreciates that the parties would have had notice of this only shortly before reply argument was due.

397. However, the impending statutory rate change and necessity for incorporating an updated provincial corporate tax rate was acknowledged by ATCO Electric in its application, and was cited as a reason for seeking placeholder treatment for the reduction to the provincial corporate

[334] Exhibit 24964-X0573.03, AET-CCA-2020OCT09-006, PDF pages 25-26.
[335] Exhibit 24964-X0001.03, application update, paragraph 256, PDF pages 288-289.
[336] Exhibit 24964-X0609, CCA argument, paragraphs 776-779, PDF pages 243-244.

tax rate. In these circumstances, the Commission finds that the now-enacted statutory tax rate should be used by ATCO Electric.

398. In the Commission's view, allowing ATCO Electric to rely on its statutory rate deferral account true-up mechanism as a rationale to avoid adjusting forecast income taxes and applied-for revenue requirement is inefficient. As noted by the CCA, deferral treatment would result in unnecessary regulatory process to true up to a provincial corporate income tax rate that is now known with certainty, at a cost that would be borne by ratepayers.

399. For these reasons ATCO Electric is directed to update its forecast income taxes to reflect the current provincial corporate income tax rate of eight per cent effective July 1, 2020, in its compliance filing.

11.2 Long-term debt rates

400. ATCO Electric's external financing requirements are obtained through CU Inc.

401. In its rebuttal evidence, ATCO Electric clarified that due to material updates to its capital forecast in the test period, it was no longer forecasting a debt issuance in either 2020 or 2021, but would continue to seek approval of a 30-year debt issue in the amount of $34.1 million at a forecast rate of 4.34 per cent for 2022. The 2022 debt rate forecast was determined using data from the April 2019 Consensus Forecast.[337]

402. In its application update, ATCO Electric did not update its 2022 forecast interest rate because the rate is subject to deferral account treatment.[338] However, in response to a Commission IR on October 26, 2020, ATCO Electric updated its forecast long-term debt rate using more recent August 2020 Consensus Forecasts. This resulted in a long-term debt rate of 3.42 per cent[339] and a reduction to revenue requirement for 2022 of $0.2 million.[340]

403. In argument, the CCA submitted that ATCO Electric overforecasts bad debt, and noted that the Commission has previously questioned the accuracy of the Consensus Forecasts.[341] The CCA stated that the Commission should take judicial notice of "the most recent [2020] 2.6% issuance of Canadian Utilities … when evaluating debt rates."[342] In the CCA's view, the current rates at which CU Inc. issues debt are reasonable forecasts of a future rate because they are based on market transactions.[343]

404. ATCO Electric responded that the CCA provided new evidence in argument that should be disregarded. Despite this, ATCO Electric submitted that the new evidence does not alter the validity of its forecast for 2022 because recent 2020 debt issuances do not provide a reasonable basis for what the 2022 debt market will look like.[344]

337 Exhibit 24964-X0001.03, application update, Table 28.3, PDF page 609.
338 Exhibit 24964-X0001.03, application update, paragraph 34, PDF page 17.
339 Exhibit 24964-X0535, AET rebuttal evidence to CCA, table at paragraph 9, PDF page 508.
340 Exhibit 24964-X0567.01, AET-AUC-2020OCT08-006, PDF page 18.
341 Exhibit 24964-X0609, CCA argument, paragraph 1018, PDF page 318.
342 Exhibit 24964-X0609, CCA argument, paragraph 1013, PDF page 317.
343 Exhibit 24964-X0609, CCA argument, paragraph 1019, PDF page 318.
344 Exhibit 24964-X0621, AET reply argument, paragraphs 359-360, PDF page 117.

Commission findings

405. The Commission does not agree that because debt interest rates are afforded deferral account treatment, there is no need to incorporate more relevant information into ATCO Electric's GTA forecasts.

406. On October 29, 2020, CU Inc. announced a September issuance of $150 million in 30-year debentures at 2.609 per cent.[345] CU Inc.'s 2020 issuance at 2.6 per cent is a fact capable of immediate and accurate demonstration on www.sedar.com, an official site that provides access to public securities documents filed by issuers. The Commission therefore takes judicial notice of this debt issuance and the applicable debt rate.

407. As ATCO Electric's external financing requirements are obtained through CU Inc., the Commission finds this to be the best available information in determining reasonable forecast 2022 long-term debt rates. In the circumstance of ATCO Electric's 2022 test year, the best available information available to the Commission encompasses recent, actual market events. Incorporating this information is of particular importance in light of the recent economic downturn related to the COVID-19 pandemic, the corresponding increase to forecast risk due to market volatility, and the uncertainty of forecasts. Accordingly, ATCO Electric is directed to use a 2022 long-term debt rate of 2.60 per cent in its compliance filing.

11.3 Preferred shares – deemed redemption

408. ATCO Electric stated that two of its three preferred share issues would be subject to rate resets during the 2020-2022 test period. Series 4 ($24.9 million, 10 years) will be reset in June 2021 at a prescribed reset rate based on the five-year Government of Canada bond yield at the time of the reset plus a credit spread of 136 basis points, and Series V ($27.9 million, 15 years) will be reset in October 2022 at a reset rate subject to an investor negotiation process.[346] ATCO Electric's other preferred share issue, Series 1 issued in 2007 ($38.9 million, at 4.60 per cent), will not be reset during the test period.

409. ATCO Electric forecast its series 4 and V reset rates at 3.37 per cent (currently 2.24 per cent) and 5.00 per cent (currently 4.6 per cent), respectively.[347]

410. The CCA proposed that the Commission direct a deemed disposition of all three issues of ATCO Electric's preferred shares at the "forecast 2019 long-term debt rate approved by the Commission in place of the currently outstanding $91.7M [million] of preferred shares issued by AET."[348] In the CCA's view, the need for the preferred share layer no longer exists and ATCO Electric should refinance with long-term debt.[349]

[345] www.sedar.com, Canadian Utilities Limited, October 29, 2020, MD&A – English.
[346] Exhibit 24964-X0001.03, application update, paragraphs 582-583, PDF page 610.
[347] Exhibit 24964-X0002.03, MFR schedules, Schedule 28-3.
[348] Exhibit 24964-X0436, CCA evidence Part 1 – D. Madsen, A. Chau, paragraph 62, PDF page 26.
[349] Exhibit 24964-X0436, CCA evidence Part 1 – D. Madsen, A. Chau, paragraphs 51 and 57, PDF pages 22 and 25.

Commission findings

411. The first issue is whether the Commission should deem the disposition of ATCO Electric's three preferred share issuances in the amount of $91.7 million to be replaced with a deemed issuance of long-term debt.

412. In response to a Commission IR, ATCO Electric estimated a reduction in revenue requirement of $1.2 million in 2020, $2.2 million in 2021, and $2.3 million in 2022 under a scenario where the Commission deemed a disposition of all three preferred share issuances as fully replaced with debt at the long-term debt rate of 3.19 per cent originally forecast for 2020.[350]

413. While the reduction to revenue requirement as calculated by ATCO Electric is not immaterial, the Commission agrees with ATCO Electric's position that deeming the redemption of the preferred shares (to the benefit of customers) for regulatory purposes would not absolve ATCO Electric of its obligation to pay the dividend on the preferred shares. Not recovering its prudently incurred (preferred share) costs ignores the fact that ATCO Electric would continue to have an obligation that cannot be "deemed away."[351]

414. For this reason, the Commission declines the CCA's recommendation to direct ATCO Electric to deem the disposition of its preferred share issuances.

415. The second issue is whether the forecast preferred share reset rates are reasonable.

Series 4 preferred shares

416. In its 2021-2023 GRA (Proceeding 25663), ATCO Pipelines forecast a 2021 reset rate of 2.22 per cent for its portion of the equivalent Series 4 preferred shares.[352] ATCO Pipelines' forecast differs from the evidence filed by ATCO Electric in this proceeding; for the same Series 4 preferred shares, ATCO Electric has forecast a reset rate of 3.37 per cent for 2021.

417. The Commission is concerned that ATCO Pipelines and ATCO Electric have submitted inconsistent reset rates for the same preferred share issuance, in different proceedings, without identifying or explaining the discrepancy. It finds that ATCO Pipelines' Series 4 preferred share reset rate, as filed in its GRA on July 16, 2020, represents the best information that is available to the Commission, as opposed to ATCO Electric's preferred share reset rates filed in this proceeding on October 3, 2019. This is because ATCO Pipelines' evidence of the reset rates is the most recent information available, and its use is of particular importance in light of the recent economic downturn related to the COVID-19 pandemic. Accordingly, ATCO Electric is directed to use a Series 4 preferred share reset rate of 2.22 per cent in its compliance filing.

Series V preferred shares

418. ATCO Electric indicated that its Series V preferred share issue is subject to an investor negotiation procedure in 2022, which includes:

> … an evaluation of dividend rates associated with recently announced comparable preferred share issues, expectations for a new Canadian Utilities Limited (CUL) preferred

[350] Exhibit 24964-X0567.01, AET-AUC-2020OCT08-008, PDF pages 21-25.
[351] Exhibit 24964-X0567.01, AET-AUC-2020OCT08-008, PDF page 25.
[352] Proceeding 25663, ATCO Pipelines, 2021-2023 General Rate Application, Exhibit 25663-X0002, tabs 3.1-7 and 3.1-8.

> share issue in the current market (which is in part linked to running yields associated with comparable preferred shares that trade in public markets), and dividend rates associated with recent CUL preferred share issuance.…[353]

419. While the risk of forecast error should negotiating parties not agree to a reset rate of 5.00 per cent would be for a limited period in 2022, given the use of a mid-year calculation, the Commission considers there are unnecessary risks associated with approving any rate (on a forecast basis) in this decision as this may act as a disincentive to the negotiation process (on an actual basis) to the detriment of customers.[354]

420. For this reason, the Commission declines to approve ATCO Electric's forecast 2022 Series V preferred share reset rate of 5.00 per cent, and directs ATCO Electric to maintain its current Series V preferred share rate of 4.60 per cent on a placeholder basis in its compliance filing.

12 Escalation mechanism 2023 and 2024

421. ATCO Electric proposed that the Commission approve an I-X escalation mechanism applicable to its approved 2022 revenue requirement. The mechanism would allow ATCO Electric to choose, at its sole discretion and at some future date, whether to apply an inflation factor (I) and a productivity factor (X) to its approved 2022 revenue requirement, thereby setting its revenue requirement for the year 2023, or for the year 2023 and then subsequently 2024, without the need for a full cost-of service application. ATCO Electric stated that its proposal was not a move to full performance-based regulation (PBR), but a step toward restoring prospective ratemaking and increasing regulatory efficiency in what it views is a "stable environment with minimal cost increases."[355] ATCO Electric clarified that all costs (O&M, capital, etc.) incurred in 2023 and 2024 would be managed under the I-X escalation mechanism, and any capital additions incurred during this period would be included and tested for prudence as part of opening rate base in the next GTA, or under a DACDA proceeding in the case of direct assigned capital projects.[356]

422. The CCA characterized ATCO Electric's proposal to retain sole discretion for effecting the escalation mechanism for either 2023 or 2024 as a "call option" benefitting only the utility. The CCA explained that ATCO Electric could choose to not exercise its escalation mechanism if it viewed that doing so would not provide it with a reasonable opportunity to recover its prudent costs. Instead, ATCO Electric would have the ability to file a cost-of-service application and have the Commission set its revenue requirement for those years through a litigated process.

423. The CCA countered with its own proposal, which would have ATCO Electric pay for the call option. In the CCA's view, setting a price for the call option would provide further

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353 Exhibit 24964-X0001.03, application update, paragraph 583, PDF page 610.

354 Exhibit 24964-X0001.03, application update, paragraph 583, PDF page 610: "… The investor negotiation procedure for this preferred share series entails, among other considerations, an evaluation of dividend rates associated with recently announced comparable preferred share issues, expectations for a new Canadian Utilities Limited (CUL) preferred share issue in the current market (which is in part linked to running yields associated with comparable preferred shares that trade in public markets), and dividend rates associated with recent CUL preferred share issuance.…"

355 Exhibit 24964-X0001.03, application update, paragraph 7, PDF page 46.

356 Exhibit 24964-X0001.03, application update, paragraphs 21 and 81-86, PDF pages 51 and 129-131.

incentives for ATCO Electric to effect efficiencies. The call option price would be set using historical actual average ROE information to be paid to customers for each year that ATCO Electric exercises the call option to proceed with an I-X mechanism.[357] [358] This proposal was also supported by Calgary.[359] The CCA also recommended the addition of a stretch factor of 1.85 per cent to the basic I-X formula requested by ATCO Electric, notwithstanding that doing so may result in a negative I-X factor.[360]

424. ATCO Electric argued that there are other positive consequences to its escalation mechanism proposal, such as savings through the avoidance of a GTA, and that the X factor should deliver reduced costs in 2023 and 2024, regardless of whether ATCO Electric is able to achieve productivity gains in those years.[361]

Commission findings

425. The Commission appreciates ATCO Electric's initiative in advancing mechanisms that may effect regulatory efficiency and reduce regulatory burden in respect of its transmission tariff. However, the Commission declines to approve ATCO Electric's escalation mechanism, as proposed, for the following reasons.

426. While the Commission considers there is a potential under specific circumstances for both customers and ATCO Electric to benefit from the escalation mechanism, the circumstances under which it has been proposed are unbalanced and entirely skewed in favour of ATCO Electric. In essence, the mechanism creates an unreasonable risk to customers but none to ATCO Electric.

427. ATCO Electric's requirement that it retain the discretion to implement an escalation mechanism or to file a full cost-of-service GTA[362] is of primary concern. In the Commission's view, ATCO Electric is not likely to propose a cost-of-service proceeding if it anticipates that its revenue requirement for 2023 and 2024 will be lower than would be achieved under the escalation mechanism. The escalation mechanism therefore poses essentially no risk to ATCO Electric because of the alternative to remain on cost-of-service ratemaking.[363] Conversely, an escalation mechanism that can be triggered at the discretion of ATCO Electric poses a risk to customers as it guarantees a minimum increase to revenue requirement of I-X.

428. Although the Commission understands that under an implemented escalation mechanism "customers are guaranteed to receive the benefits of productivity improvements through the X factor, regardless of whether AET is actually able to achieve them [emphasis in original]," it does not accept that "both AET and customers stand to benefit if the escalation mechanism is used and will be no worse off if it is not used."[364]

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357 Exhibit 24964-X0442, CCA evidence Part 3 – Jan Thygesen, paragraphs 25-27, PDF pages 9-10, describe the process to determine a call option price of "33 basis points of return paid to customers for each year that ATCO retains the option."
358 Exhibit 24964-X0609, CCA argument, paragraph 90.
359 Exhibit 24964-X0611, Calgary argument, paragraph 98, PDF page 26.
360 Exhibit 24964-X0464, CCA-AUC-2020AUG28-047(a)-(b), PDF pages 170-172.
361 Exhibit 24964-X0621, AET reply argument, paragraph 378, PDF page 122.
362 Exhibit 24964-X0614, AET argument, paragraph 484, PDF page 150.
363 Exhibit 24964-X0609, CCA argument, paragraph 963, PDF page 306.
364 Exhibit 24964-X0621, AET reply argument, paragraph 378, PDF page 122.

429. The CCA appears to have taken the position that ATCO Electric's proposed escalation mechanism was a proposal to implement a full PBR plan that should include a "stretch factor" and further, a "call option" that would be tantamount to an earnings sharing mechanism. Given that this was not what ATCO Electric proposed, the Commission did not find the evidence of the CCA addressing ATCO Electric's proposed escalation mechanism to be helpful.

430. Given the above, the Commission finds that the escalation mechanism proposed by ATCO Electric creates an unreasonable risk to customers, irrespective of any potential benefits of avoiding a cost-of-service application for 2023 or 2024, and consequently denies it.

13 Order

431. It is hereby ordered that:

(1) ATCO Electric Ltd. shall file its 2020-2022 transmission general tariff application compliance filing by April 19, 2021, to reflect the findings, conclusions and directions in this decision and Decision 24964-D01-2021.

Dated on March 19, 2021.

Alberta Utilities Commission

(original signed by)

Anne Michaud
Vice-Chair

(original signed by)

Kristi Sebalj
Commission Member

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 or 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 A. Corsi A. Starkov

Appendix 2 – Summary of significant process steps, rulings and procedural requests

(return to text)

The following is a summary of significant process steps, rulings and procedural requests addressed during the proceeding:

Date	Process step description
October 3, 2019	ATCO Electric files 2020-2022 GTA.
October 4, 2019	Notice issued.
October 18, 2019	Deadline for statement of intent to participate submissions.
October 21, 2019	Process schedule to establish conference call discussion of regulatory efficiency initiatives.
October 25, 2019	Commission-initiated conference call between parties.
October 29, 2019	Commission letter summarizing October 25, 2019, conference call.
November 4, 2019	Commission letter requesting ATCO Electric to provide supplemental information in three areas (shared services initiative, depreciation study, and Wildfire Mitigation and Grid Resiliency Program) and process schedule.
November 14, 2019	ATCO Electric request for extension to respond to IRs.
November 18, 2019	Commission ruling denying ATCO Electric request for extension to file IR responses.
November 25, 2019	Commission letter identifying preliminary issues list.
November 25, 2019	AUC Round 1 IR submission to ATCO Electric.
December 2, 2019	ATCO Electric filing of Commission-requested supplemental information.
December 12, 2019	CCA request for extension to file CCA Round 1 IRs not filed on December 16, 2019, by December 19, 2019.
December 13, 2019	Commission ruling granting CCA extension to file those CCA Round 1 IRs not submitted on December 16, 2019, by a deadline of December 19, 2019.
December 16 and 19, 2019	AUC Round 2 and intervener Round 1 IR submissions to ATCO Electric.
December 17, 2019	ATCO Electric request for workshop to discuss Exhibit 24964-X0160 FTE-related IRs and ATCO Electric's intended headcount approach to the IR responses (AET-AUC-2019NOV25-010, AET-AUC-2019NOV25-011 and AET-AUC-2019NOV25-012).
December 20, 2019	Commission letter confirming ATCO Electric's request for an FTE-related workshop on January 13, 2020.
January 7, 2020	ATCO Electric letter with FTE-related workshop details and logistics.
January 7, 2020	ATCO Electric pre-emptive motion to not respond to certain CCA Round 1 IRs.
January 7, 2020	ATCO Electric request for extension to respond to IRs (AUC Round 2 and Intervener Round 1) from January 17, 2020 to February 14, 2020.
January 8, 2020	Commission letter establishing process on ATCO Electric's pre-emptive motion.
January 8, 2020	Commission letter confirming AUC Round 1 IR responses due January 17, 2020, and indicating that it will rule on the deadline extension for AUC Round 2 and intervener Round 1 IRs in its ruling on ATCO Electric's pre-emptive motion.
January 13, 2020	Workshop to discuss ATCO Electric's intended approach to respond to AUC FTE-related IR; held at ATCO Electric offices in Edmonton.
January 14, 2020	Commission letter summarizing January 13, 2020, FTE-related workshop subsequent to parties' opportunity to review and provide comments on same.
January 17, 2020	Commission letter directing that ATCO Electric's FTE-related IR responses are to include both the (alternative) headcount both with and without USA level of information and FTE information at the USA level of information (rather than cost centre level of information that was originally requested). The alternative (headcount) responses, without the USA information, is due January 17, 2020, and the alternative (headcount) responses, with the USA information is due February 14, 2020.
January 17, 2020	Commission ruling granting extension for ATCO Electric to submit AUC Round 2 and Intervener Round 1 IR responses by February 14, 2020.
January 17, 2020	ATCO Electric responses to AUC Round 1 IRs, excluding four IRs related to FTEs and severance. ATCO Electric request for extension to February 14, 2020, to respond to the FTE and severance IRs in the alternative (headcount) without the USA information format. ATCO Electric and for confidential treatment of IR responses related to IT common costs.
January 21, 2020	Commission ruling denying ATCO Electric pre-emptive motion to not file certain IR responses to the CCA.
January 24, 2020	ATCO Electric request for extension to February 14, 2020, to respond to the four remaining AUC Round 1 FTE and severance IRs in the alternative (headcount) without USA information.

Date	Process step description
January 31, 2020	Commission ruling granting ATCO Electric's request for an extension for AUC Round 2 IRs and intervener Round 1 IR responses. All variations of the four remaining AUC Round 1 FTE-related IRs, AUC Round 2 IRs and intervener Round 1 IRs are due February 14, 2020.
February 10, 2020	ATCO Electric request to allow the eFiling System enhancement under the provisions of Section 28 of Rule 001 with respect to confidentiality motions apply to Proceeding 24964.
February 12, 2020	Commission ruling granting that the provisions of Section 28 of Rule 001, in force on February 8, 2020, apply to Proceeding 24964, and establishing applicable process steps.
February 12, 2020	Commission grants confidential treatment of information from a prior proceeding (refiling of Exhibit 24964-X0202)
February 14, 2020	ATCO Electric responses to the four remaining AUC Round 1 FTE and severance IRs, and AUC Round 2 and intervener Round 1 IRs.
February 14, 2020	ATCO Electric resubmits its February 10, 2020, request for confidential treatment for information from a prior proceeding (refiling of Exhibit 24964-X0226).
February 19, 2020	Commission ruling granting confidential treatment of information from a prior proceeding.
February 21, 2020	CCA motion for further and better responses to Round 1 IRs.
February 21, 2020	Calgary motion for further and better responses to Round 1 IRs.
March 11, 2020	Commission reiterates its directions, with respect to ATCO Electric providing, by April 1, 2020, FTE-related IR responses in the manner directed by the Commission on January 17, 2020.
March 11, 2020	Commission letter setting further process for the development of the final issues list by April 1, 2020.
March 11, 2020	Commission letter setting further process for CCA and Calgary motions for further and better Round 1 IR responses, and the clarification of several AUC Round 2 IR responses to be responded to by April 1, 2020 (submitted as AUC Round 3 IRs).
April 1, 2020	ATCO Electric responses to AUC Round 3 IRs.
April 17, 2020	Commission ruling on final issues list and update to process schedule.
April 21, 2020	ATCO Electric request for extension to submit 2019 Rule 005 filing by May 19, 2020.
April 21, 2020	Commission ruling on CCA motion for further and better Round 1 IR responses. Calgary motion for same was resolved and requires no ruling.
April 23, 2020	Commission letter requiring clarification of ATCO Electric's response to Commission IRs - headcount and FTE format and associated methodology as was previously directed on January 17, 2020 (Exhibit 24964-X0184) and March 11, 2020 (Exhibit 24964-X0335).
April 27, 2020	Commission letter clarifying process for ATCO Electric's request for an extension to submit 2019 Rule 005 filing by May 19, 2020.
May 29, 2020	AUC Round 4 and intervener Round 2 IRs - IRs restricted to final issues list and 2019 actual results.
June 10, 2020	ATCO Electric request to submit responses to certain AUC Round 4 and intervener Round 2 IRs by June 22, 2020.
June 11, 2020	Commission ruling granting ATCO Electric's request to file responses to certain AUC Round 4 and intervener Round 2 IRs by June 22, 2020.
June 12 and 22, 2020	ATCO Electric responses to AUC Round 4 and intervener Round 2 IRs.
June 17, 2020	Calgary motion for further and better responses to Round 2 IRs.
June 19, 2020	CCA motion for further and better responses to Round 2 IRs.
June 24, 2020	Commission clarification of process for CCA and Calgary motions for further and better responses to Round 2 IRs. Parties directed to seek resolution through discussion before the Commission will consider the motions further.
July 16, 2020	Commission ruling on CCA and Calgary motions for further and better responses to Round 2 IRs.
August 10, 2020	CCA letter requesting Commission consideration of scheduling constraints on various proceedings.
August 12, 2010	Commission response to CCA request for Commission to consider scheduling constraints on various proceedings.
August 14, 2020	Intervener evidence.
August 28, 2020	Round 1 IRs on intervener evidence.
September 14, 2020	Responses to intervener Round 1 IRs.
September 15, 2020	Calgary motion for confidential treatment for IR response and cost recovery of certain information.
September 16, 2020	Commission ruling denying Calgary motion for confidential treatment and cost recovery.
September 17, 2020	Calgary response to Commission motion, that confidential information has been submitted by thumb drive and providing limited use term agreement for use of proprietary information.
September 17, 2020	Commission clarification that proceeding has adopted eFiling System enhancements and confidential information is to be provided electronically.
September 28, 2020	ATCO Electric update to application for material changes to 2020-2022 test year forecasts and rebuttal evidence
October 9, 2020	AUC Round 5 and Intervener Round 3 IRs - IRs restricted to rebuttal evidence and update for material changes to 2020-2022 test year forecasts.

Date	Process step description
October 26, 2020	ATCO Electric responses to AUC Round 5 and intervener Round 3 IRs, noting that it will not be providing a response to certain IRs but where possible, endeavored to provide an alternate response. States there has been insufficient time to hold discussions between parties to resolve certain IR responses. ATCO Electric also requests confidentiality for a UCA IR response.
October 27, 2020	CCA letter requesting, in advance of October 28, 2020, discussions with ATCO Electric, a placeholder for an abbreviated motion process.
October 28, 2020	Commission ruling granting confidential treatment for UCA IR response, denying CCA placeholder for an abbreviated motion process in advance of October 28, 2020 discussions between parties.
November 3, 2020	CCA motion for further and better intervener Round 3 IR responses, and Appendix A document, noting there are IR responses for which ATCO Electric has committed to file additional information.
November 5, 2020	Commission ruling granting CCA motion, advising parties that the motion will be processed without further process, and directing ATCO Electric to provide additional information it has committed to provide as a result of the October 29, 2020, meetings between parties. The Commission requests parties' comments on potential for oral argument and reply argument.
November 6, 2020	ATCO Electric response to the CCA's motion including an Appendix A document and the additional information it committed to provide.
November 9, 2020	Commission ruling that ATCO Electric's November 6, 2020, submissions did not comport with the Commission's November 5, 2020, ruling. As a result of this ruling, all exhibits submitted by ATCO Electric on November 6, 2020, were determined to be either void, or the revision document removed. Commission reiterates November 5, 2020, ruling directing ATCO Electric to provide the agreed-to IR responses.
November 10, 2020	ATCO Electric letter questioning voiding of its November 6, 2020, submissions.
November 12, 2020	Commission letter reiterating its November 5, 2020, ruling directing ATCO Electric to provide the agreed-to IR responses and advising that proceeding will continue as written to the close of record.
November 16, 2020	ATCO Electric responses to IR with agreed-to information from October 28, 2020, meeting.
November 17, 2020	Commission ruling that proceeding will continue with written process for argument and reply argument.
November 18, 2020	Commission ruling on CCA motion and directing ATCO Electric to provide IR responses by November 27, 2020.
November 27, 2020	ATCO Electric responses to IRs as directed in the Commission's November 18, 2020, ruling.
December 7, 2020	Final argument.
December 8, 2020	Commission ruling granting ATCO Electric request for a one-week extension to file reply argument by December 21, 2020.
December 21, 2020	Reply argument, close of record.

Appendix 3 – Summary of recommended and approved depreciation parameters

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Appendix 3 -
Summary depreciati

(consists of three pages)

Appendix 4 – Summary of Commission directions addressed in application

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This section is provided for the convenience of readers and outlines the directions from Decision 20272-D01-2016 (ATCO Electric's 2015-2017 transmission GTA); Decision 20514-D02-2019 (ATCO Utilities' IT common matters proceeding); Decision 22859-D01-2018 (ATCO Electric's common group compliance filing); Decision 22742-D01-2020 (ATCO Electric's 2018-2019 transmission GTA); and Decision 24805-D01-2020 (ATCO Electric's 2018-2019 transmission GTA compliance filing), which the Commission finds have been satisfied. In the event of any difference between the directions in this section and those in the main body of the decisions referenced, the wording in the main body of those decisions shall prevail.

Decision 20272-D01-2016

18. On the basis of the foregoing, the Commission denies ATCO Electric's proposed use of forecast information in its actuarial database for the purpose of developing depreciation parameters and directs ATCO Electric in its next depreciation study to revert to its currently approved methodology which provides for the use of forecast capital additions solely for the purpose of determining depreciation rates. .....paragraph 400

21. On that basis, ATCO Electric is directed to identify and create a subaccount category for any USA account that now includes, and in the future will include, assets constructed to comply with ISO Rule 502.2, including any assets or capital projects constructed before the ISO rule came into effect, where projects have been constructed under the assumption that ISO Rule 502.2 would be adopted. ATCO Electric is directed to comply with this finding at the time of its next depreciation study. .....paragraph 424

27. At the same time, the Commission wishes to obtain a better understanding of why ATCO Electric's costs of retirement for this account appear to significantly exceed that of industry peers and considers it would be in the public interest and of considerable benefit to the Commission for ATCO Electric to include a detailed explanation for this in its next depreciation study. ATCO Electric is directed to provide the noted explanation in its next depreciation study. .....paragraph 551

96. For these reasons, the Commission directs ATCO Electric to provide information in the nature of that shown in tables 64 and 65, above, on costs and revenue offsets, along with detailed explanations for any differences between annual forecasts and actuals, as well as any differences in actuals between costs and revenue offsets for the year being compared. This information shall be provided as separate schedules along with the annual compliance report filed with the Commission. .....paragraph 1371

97. For these reasons, the Commission is not persuaded that the RPG's request is reasonable in the circumstances. However, it directs ATCO Electric to provide the following information as part of all future GTA proceedings:

    - Complete descriptions of all sales or transfers of ATCO Electric transmission assets occurring in the period covering actual information filed for comparison use to the

test years. Information regarding identified transactions must include a description of the assets involved, a statement of the transaction value including confirmation of whether and (if applicable) how fair market value pricing was determined (including copies of all valuation reports relied upon).

- Identification of all asset transactions between ATCO Electric and an affiliate, for each comparison year of actuals or any portion thereof. For example, in the current 2015-2017 proceeding, 2012 through 2014 actuals were provided for comparative purposes. In addition, the 2015 test year forecast included a portion of 2015 YTD actuals. For this example, information should be provided for 2012 through 2015 YTD actuals.

.....paragraph 1385

Other Matter No. 9:

… The Commission, however, is concerned that certain information is excluded because a project's capital expenditures in the test period are less than $5.0 million. The Commission considers that the $5.0 million threshold should apply to the estimated total project cost, not the forecast costs in the test period, and that this guideline be strictly adhered to in all subsequent submissions. .....paragraph 851

Decision 20514-D02-2019

1. In summary, to account for the considerations listed above and to achieve just and reasonable rates, adjustments to the MSA pricing are required. The ATCO Utilities are directed to apply (i) a reduction of 13 per cent in MSA pricing in year 1 (which automatically flows through to all subsequent years as in the example shown above); and (ii) a glide path reduction in MSA pricing of 4.61 per cent (on a weighted average across towers) in each of years 2 through 10. .....paragraph 379

Decision 22859-D01-2018

1. As noted above, the Commission did not find credible ATCO Electric - Transmission's explanation that it could not reconcile its updated placeholder amounts to the requested common group compliance filing amounts. In this regard, ATCO Electric has not met its onus. The limited information detailing the substantive adjustments that occurred in creating and supporting the entire pool of "common group" FTEs and costs is inadequate in justifying the portion of costs allocated to ATCO Electric's transmission function. The Commission acknowledges that ATCO Electric - Distribution is under performance-based regulation (PBR) and is only subject to minimum filing requirement (MFR) schedules. However, further information about common costs is required in future GTAs to support the costs allocated to ATCO Electric - Transmission. ATCO Electric Ltd. is directed, on a go-forward basis, to provide all cost-information for every ATCO affiliate, comprising the total costs and supporting detail, that substantiate and justify the costs allocated to, or from, ATCO Electric's transmission function. .....paragraph 49

Decision 22742-D01-2019

9. The Commission has denied AET's request to amend the mechanics of the VPP reserve account to be symmetrical in nature, as detailed above. The Commission also agrees with the CCA that the VPP reserve account balance should be targeted to be as close to zero by the end of the GTA test periods as possible. The Commission notes in this regard, that there is no benefit to AET shareholders, ratepayers or employees in maintaining a positive balance in the VPP reserve account as any positive balance is designated as zero cost capital. On the other hand, requiring ratepayers to provide VPP funds projected to be spent, but that may not be spent not only for a period of one or more years after those VPP funds are collected, but for one or more successive test periods, is prima facie harmful to customers. In its compliance filing AET is directed to provide options on how it could best operate the VPP reserve account to avoid an increasing accumulated balance i.e., the VPP reserve account balance should trend as close to zero as possible .....paragraph 160

15. Further, the Commission directs AET to provide, in its next GTA, a detailed breakdown of the savings and lower forecast expenses realized as a result of the transition by AET from a primarily mechanically based vegetation management program to one that is primarily based on the application of herbicides. .....paragraph 218

18. The Commission has examined parties' evidence with respect to the salvage methodologies used by EPCOR and APL. While the Commission will make no change to AET's depreciation methodology or depreciation rates in this proceeding, the Commission directs AET, as part of its next depreciation study, to compare AET's average service lives and net salvage percentages for its five largest plant accounts (on a dollar amount basis) to those of other electric transmission utilities in the province. .....paragraph 231

22. The Commission, however, remains interested in a specific scenario raised by the Bema witness during the oral hearing. The scenario deals with when an asset is placed into utility service and the corresponding impact to the asset valuation used for property tax purposes. Accordingly, AET is directed to explore the timing of the capitalization of its assets as an acceptable method to potentially reduce the amount of property taxes it would otherwise be required to pay, and to report, at the time of its next GTA, whether such timing can or should be taken into account on a go-forward basis. .....paragraph 317

23. In its next GTA, however, AET is directed to file variance analyses reflecting the actual expenditures, explanations for variance from forecast and the current status of projects not completed. As previously directed in Decision 20272-D01-2016, AET is also directed to file business cases, at the time of filing its next GTA, for projects with a forecast value greater than $500,000 that are planned to be completed in the test period but not forecast in the current application. .....paragraph 346

24. The Commission and interveners submitted numerous information requests to AET with respect to these programs as well as the other forecast expenditures. The Commission finds the evidence filed regarding AET's forecast GP&E [General Property and Equipment] expenditures to be reasonable and sufficient, and the proposed programs necessary. They are approved as filed. In its next GTA, AET is directed to file variance

analyses reflecting the actual capital expenditures, explanations for variance from forecast and the current status of projects not completed. .....paragraph 367

26. The Commission notes that AET's application relies on operating cost forecasts based on the existing activity-based forecasting methodology. The shared services initiative has not been fully implemented nor has AET requested that the Commission approve the new methodology in the current proceeding. The Commission considers that further review of the shared services initiative should be deferred to a future proceeding where it can be thoroughly examined. The shared services initiative and approval of a new shared services methodology was a live issue in the ATCO Pipelines' proceeding (Proceeding 23793). In Decision 23793-D01-2019 issued on June 25, 2019, the Commission directed ATCO Pipelines to coordinate with AET to ensure consistent information on the shared services initiative in each of their next GRA and GTA, respectively. The Commission went on to enumerate the nature of the information required, including the filing of cost information for all ATCO affiliates to substantiate the costs allocated to all regulated ATCO entities. The Commission in the current proceeding similarly directs AET to coordinate with ATCO Pipelines 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 and GTA, preferably filing common documents wherever possible. The information should include evidence supporting the functions created, justifying total FTEs 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 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. .....paragraph 540

27. The Commission acknowledges that of the ATCO companies, AED and ATCO Gas are under performance-based regulation and are subject only to minimum filing requirement schedules. However, further information about common costs are required to support the costs allocated to AET. As such, AET is directed, on a go-forward basis, to provide all cost information for every ATCO affiliate, comprising the total costs and supporting detail that substantiate and justify the costs allocated to AET relative to the other regulated and non-regulated ATCO companies under the shared services initiative. ....paragraph 541

47. For this reason, the Commission directs AET to provide the following information as part of all future GTAs where there is a variance of $0.5 million or more between forecast and actual affiliate revenues, for any affiliate receiving services from AET:

    (a) The forecast, actual and variance amounts for affiliate revenues, broken down by:
        (i) AET internal labour
        (ii) Fringe benefits on internal labour
        (iii) Overhead loading on AET labour-related costs

(iv) Flow-through costs

(b) For the variance in AET internal labour taken from part (a) above, identify each group that contributed to the internal labour variance, whether the variance amount was for O&M or capital-related activities, and, for each variance amount, the dollar amount and number of FTEs involved.

(c) For each group identified in part (b) above, confirm whether the work related to the observed variance was backfilled, and provide an explanation of how and when this was done.

.....paragraph 760

Decision 24805-D01-2020

1. For AET, capital true-up of 2018 and 2019 should be addressed in AET's next GTA. Otherwise, there would be an inconsistency in calculating closing rate base for IT capital-related costs and non-IT capital-related costs. Calgary's request for further information is denied. However, the Commission directs AET to clearly show any rate base related impacts from the IT Common Matters decision when truing up its 2018 and 2019 actuals in its next GTA filing. .....paragraph 61

Appendix 5 – 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 consequently directs ATCO Electric to use its internal 2019 actual FTEs as the approved base level FTE complement for all test years. This base level of FTEs is a starting point for 2020 that will be adjusted as a result of the Commission's findings on incremental FTEs proposed by ATCO Electric in each of the test years. Incremental FTE additions and reallocations are discussed below. ..... paragraph 58

2. For the FTEs allocated to ATCO Electric Transmission via the common group allocators, the Commission directs ATCO Electric, for each common group function, to use 2019 actual FTEs as the approved total pre-allocated common group base level FTE complement for all test years, and to then allocate these total pre-allocated common group FTE complements (and the associated costs) in accordance with the approved common group allocators..... paragraph 59

3. For the FTEs allocated to ATCO Electric Transmission via the head office allocator, the Commission directs ATCO Electric to use 2019 actual FTEs as the approved total pre-allocated head office base level FTE complement for all test years, and to then allocate this total pre allocated head office complement (and the associated costs) in accordance with the approved head office allocator..... paragraph 60

4. Given the stability of ATCO Electric's FTE complement over the last two years, and the relatively low number of approved FTE additions (as shown in Table 7) the Commission finds that a vacancy rate of zero per cent is reasonable in the circumstances, and accordingly directs ATCO Electric to apply a vacancy rate of zero per cent to its approved FTE complement, for all test years. ..... paragraph 68

5. ATCO Electric is directed to reflect the directions contained within the entirety of sections 6.1.1 to 6.1.3 in its compliance filing. The Commission further directs AET not to offset the impacts of a reduction to capital FTEs with an increase in contractor costs. ..... paragraph 69

6. Given the ambiguity as to whether the "AET Final Allocation %" is an accurate proxy for an employee's time/workload, the potential for a disconnect to exist between ATCO Electric's forecast activities and its headcount reports, and the comparability limitations with other utilities, the Commission does not accept ATCO Electric's request to report its labour requirements via the proposed headcount method. It accordingly directs ATCO Electric to continue providing its labour requirements and labour reports via the established and long-standing FTE method..... paragraph 82

7. Given the 2020 and 2021 wage settlements of other Alberta utilities and the uncertainty surrounding the COVID-19 pandemic, the Commission finds that increases of 1.90 per cent in 2020 and 1.75 per cent in 2021 for in-scope employees are in line with the average wage settlements of Alberta utilities for the same time periods and are reasonable in the current circumstances. For these reasons, the Commission approves in-scope labour inflation rates of 1.90 per cent for 2020 and 1.75 per cent for 2021. ATCO Electric is directed to incorporate these rates in its compliance filing..... paragraph 103

8. The Commission agrees that the CCA's proposal is unreasonable; however, given the difficulty in predicting the economic impact of the COVID-19 pandemic, the Commission finds that a reasonable wage increase should be more in step with current economic conditions in Alberta, relative to the applied-for 2.75 per cent. Specifically, the Commission finds a 1.8 per cent increase for 2022, which is the average of the approved 2020 and 2021 inflation rates, to be reasonable in the circumstances, as it is at a level closer to the in-scope labour inflation rates approved above for 2020 and 2021. The Commission consequently denies the requested 2.75 per cent labour inflation increase requested by ATCO Electric, and approves a 1.8 per cent in-scope labour inflation rate for 2022. ATCO Electric is directed to incorporate this rate in its compliance filing. ..... paragraph 105

9. Accordingly, the Commission approves out-of-scope labour inflation rates of zero per cent for 2020, 0.8 per cent for 2021 and 1.8 per cent for 2022. ATCO Electric is directed to incorporate these rates for its non-executive and executive employees in its compliance filing. ATCO Electric is also directed to clearly show how the approved rates are incorporated for its executive employees, similar to the calculation provided by the CCA in its argument..... paragraph 113

10. ATCO Electric indicated that the methodology for both the "other" and contractor inflation rates is consistent with the methodology used in previous GTAs. However, given the uncertainty regarding the economic impacts of the pandemic and the speed of Alberta's recovery after the pandemic, along with the downward trend of more recent CPI forecasts, the Commission finds that the approved out-of-scope labour inflation rates best reflect the "other" and contractor labour market. Accordingly, based on the out-of-scope labour inflation rates the Commission approved in Section 6.3, ATCO Electric is directed to use "other" and contractor inflation rates of 0.8 per cent for 2021 and 1.8 per cent for 2022. For 2020, the Commission finds ATCO Electric's updated CPI forecast change of 1.2 per cent to be reasonable for the "other" and contractor inflation rates. ATCO Electric is directed to incorporate these rates in its compliance filing. ..... paragraph 116

11. The Commission is satisfied with the information provided by ATCO Electric that explains the increases in fringe costs and finds the amounts to be reasonable. It also accepts ATCO Electric's derivation of the assumed 25 per cent for fringe benefits for each year in the test period. While it is not clear from the evidence that the fringe rate was derived from a "detailed, bottom-up forecast of each component of fringe benefits," the Commission finds that the attachment provided in response to a Commission IR adequately illustrated that the percentage is based on ATCO Electric's forecast of each fringe benefit component, which is then applied to its forecast base salaries. ATCO Electric is directed to show the impact of those directions on its fringe benefit costs in its compliance filing. ..... paragraph 118

12. For these reasons, the Commission declines to approve ATCO Electric's VPP costs in the amounts forecast in full. ATCO Electric is directed to reduce its VPP costs to 80 per cent of the forecast amounts in its compliance filing. ..... paragraph 155

13. For the reasons above, and for the purposes of both ongoing administration and a timely settlement of unspent accumulated reserve balances, the Commission directs ATCO Electric to administer its VPP reserve account by disaggregating O&M, direct assigned, and non-directed assign capital VPP amounts effective January 1, 2020. This also applies

engineering analysis on the identified scope and prioritize replacements that are approaching or at the end of life) were not adequately analyzed. For these reasons, the Commission denies the forecast expenditures related to the rebuilding of the transmission lines portion of ATCO Electric's WMP Rebuilds Project and directs ATCO Electric to remove the $11.5 million of forecast costs for this portion of the project in its compliance filing. ..... paragraph 338

30. Concerning critical crossing upgrades, as highlighted by the CCA and in consideration of the challenges described by ATCO Electric related to river crossing failures with the Fort McMurray wildfire events, the Commission accepts that such failures could result in long outages. The Commission considers that the $2.4 million forecast expenditures are reasonable relative to the level of risk they are intended to address, and accordingly approves them. ATCO Electric is directed to add this amount to the applicable existing TCM Program. ..... paragraph 339

31. For these reasons, the Commission declines to approve ATCO Electric's proposed renewable hybrid plant conversion option and approves the alternate option to connect to the AIES via a distribution interconnection. ATCO Electric is directed to incorporate these findings in its compliance filing and to clarify the amount of the DFO contribution included in the forecast $2.4 million capital cost under the interconnection option. ..... paragraph 349

32. As a preliminary matter, the Commission notes that in Decision 22742-D01-2019, it approved ATCO Electric's proposal to reconfigure the Indian Cabins Power Plant to a renewable hybrid plant. In this application, ATCO Electric also proposed to reconfigure the Steen River Power Plant to a renewable hybrid plant. However, as a result of not obtaining government funding, it later withdrew its proposal to reconfigure both the Indian Cabins and Steen River power plants into renewable hybrid plants. The Commission approves the withdrawal of these two reconfiguration projects from the GTA, and directs ATCO Electric to remove the forecast costs for 2020-2022, related to these reconfiguration projects, in its compliance filing. ..... paragraph 352

33. ATCO Electric advised in an IR response that it proceeded with the engine replacement of CUL 457 in the amount of $0.1 million in 2020. Specifically, ATCO Electric explained that it replaced a diesel engine, rather than a propane engine that was included in the original scope of work in the business case filed in the 2018-2019 GTA. The Commission observes that the status update provided to the Commission in Proceeding 26177 identified that CUL 457 was "removed" and replaced with CUL 605 in the updated Part A of the schedules in the IGUCCR. Based on the evidence filed, the Commission questions the reasonability of replacing an engine and subsequently removing the entire isolated generating unit within a short time period. Accordingly, ATCO Electric's request for $0.1 million to replace CUL 457 in 2020 is denied, and the Commission directs these costs to be removed from ATCO Electric's forecast in its compliance filing. ..... paragraph 355

34. A review of ATCO Electric's alternatives shows that its proposal to utilize a mobile unit at a cost of $0.4 million is a lower overall capital cost option than installing a fifth permanent isolated generating unit at a cost of $4.0 million. While an option to connect to the AIES was not presented in the business case, the Commission accepts that the Fort Chipewyan Third Lake Power Plant is geographically remote, and that an interconnection option would not likely be economic in the circumstances. As a result, the Commission

approves ATCO Electric's request to move a mobile unit to the Fort Chipewyan Third Lake Power Plant. ATCO Electric has not identified which mobile unit it will deploy. In its compliance filing, the Commission directs ATCO Electric to identify, in Part C of the schedules in the IGUCCR, which unit will be removed from its mobile fleet and added to the Fort Chipewyan Third Lake Power Plant. ..... paragraph 358

35. The Commission also finds that the forecast costs for the Fort Chipewyan Third Lake power plant are reasonable, and approves them as filed. Notwithstanding this finding, the Commission notes its prior finding that ATCO Electric Distribution, as distribution owner, was entitled to recover the estimated $60,000 cost to purchase the meter for this project. While this cost is minimal in context, given the prior finding, it is not clear why this meter cost was included in ATCO Electric's request for cost recovery in this proceeding. The Commission directs ATCO Electric to remove this cost from its forecast amounts in the compliance filing. If ATCO Electric is of the view that this cost should now be recovered from ATCO as a transmission owner, rather than ATCO as a distribution owner, in its Rate 32 (Generator Interconnection and Standby Power), it should explain why. ..... paragraph 360

36. In the Commission's view, all relevant information for each isolated generation project or subproject should have been provided in an organized fashion by ATCO Electric in its application from the outset of this proceeding. For greater efficiency going forward, in each future GTA, ATCO Electric is directed to prepare a construction work in progress (CWIP) continuity schedule comprising each isolated generation capital project and subproject, including costs on an actual basis for the prior test period and costs on a forecast basis for the prior and applied-for test periods. ATCO Electric is also directed to include the following information in its CWIP continuity schedule, for each identified isolated generation capital project and subproject: a project number, a brief description of the project, any contribution amounts, government funding amounts, and the identification of the applicable sections of the IGUCCR. If the IGUCCR does not apply, ATCO Electric is directed to include a brief description of what Commission approval is sought. ..... paragraph 362

37. The Commission finds that ATCO Electric did not reflect the most up-to-date information in its application update. Accordingly, in its compliance filing, the Commission directs ATCO Electric to update its fuel cost forecast and O&M costs to account for the effects of the removal of the Indian Cabins and Steen River renewable hybrid plants, and the effects of the carbon tax in its fuel cost forecasts.. .... paragraph 366

38. The Commission finds that the timeframe associated with the forecast costs for the CETO Project is overly optimistic and not reasonably attainable given the approximate one-year delay in ISD cited in the AESO Progress Report. The Commission therefore directs ATCO Electric, in its compliance filing, to reduce its forecast expenditures for the 2020-2022 test period to 50 per cent of the total applied-for $109.8 million and to update all applicable schedules. Accordingly, the Commission approves CETO Project capital expenditures in the amount of $54.9 million for the years 2020-2022, which includes a forecast expenditure in the amount of $2.8 million in 2020. ..... paragraph 384

39. For the reasons stated above, the Commission directs ATCO Electric to continue using, post-implementation of its upgrade project, a consistent appropriation number for each of its non-direct assigned capital projects on all documentation filed in its GTAs, including, but not limited to, the application, GTA schedules and business cases. For its non-direct

assigned capital projects, the Commission directs ATCO Electric to incorporate an appropriation number as the initial five digits in the alphanumeric string field, followed by the appropriation description at the time of its next GTA, as has been done for its direct assigned projects. ..... paragraph 388

40. The Commission confirms that ATCO Electric's requested placeholder treatment of a deemed common equity ratio and return on equity for the years 2021 and 2022 of 37 per cent and 8.5 per cent, respectively, is now moot. These amounts have now been approved as final in decisions 24110-D01-2020 and 26212-D01-2021, in the Commission-initiated 2021 generic cost of capital (GCOC) proceeding and 2022 GCOC proceeding, respectively. Accordingly, the Commission directs ATCO Electric, to include a deemed common equity ratio and return on equity of 37 per cent and 8.5 per cent on a final basis, for the years 2021 and 2022, respectively. ..... paragraph 389

41. For these reasons ATCO Electric is directed to update its forecast income taxes to reflect the current provincial corporate income tax rate of eight per cent effective July 1, 2020, in its compliance filing..... paragraph 399

42. As ATCO Electric's external financing requirements are obtained through CU Inc., the Commission finds this to be the best available information in determining reasonable forecast 2022 long-term debt rates. In the circumstance of ATCO Electric's 2022 test year, the best available information available to the Commission encompasses recent, actual market events. Incorporating this information is of particular importance in light of the recent economic downturn related to the COVID-19 pandemic, the corresponding increase to forecast risk due to market volatility, and the uncertainty of forecasts. Accordingly, ATCO Electric is directed to use a 2022 long-term debt rate of 2.60 per cent in its compliance filing..... paragraph 407

43. The Commission is concerned that ATCO Pipelines and ATCO Electric have submitted inconsistent reset rates for the same preferred share issuance, in different proceedings, without identifying or explaining the discrepancy. It finds that ATCO Pipelines' Series 4 preferred share reset rate, as filed in its GRA on July 16, 2020, represents the best information that is available to the Commission, as opposed to ATCO Electric's preferred share reset rates filed in this proceeding on October 3, 2019. This is because ATCO Pipelines' evidence of the reset rates is the most recent information available, and its use is of particular importance in light of the recent economic downturn related to the COVID-19 pandemic. Accordingly, ATCO Electric is directed to use a Series 4 preferred share reset rate of 2.22 per cent in its compliance filing. ..... paragraph 417

44. For this reason, the Commission declines to approve ATCO Electric's forecast 2022 Series V preferred share reset rate of 5.00 per cent, and directs ATCO Electric to maintain its current Series V preferred share rate of 4.60 per cent on a placeholder basis in its compliance filing..... paragraph 420

USA	Description	Currently approved 2015-2017 Decision 20272-D01-2016		AET proposed 2020-2022 parameters Exhibit 24964-X0033.02		UCA proposed alternatives only 2020 2022 parameters Exhibit 24964-X0445		Commission approved 2020-2022 parameters Proceeding 24964	
		YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.
	Generation								
331.00	Hydro Structures	2045 / 75-R2	-115%						
332.00	Hydro Reservoirs, Dams and Waterways	2045 / 100-R3	-115%						
333.00	Hydro Generators	2031 / 75-R3	-77%						
334.00	Hydro Accessory Electrical Equipment	2031 / 45-R3	-115%						
335.00	Hydro Miscellaneous Plant Equipment	2031 / 25-R2	-115%						
341.10	Gas Turbine Structures	2018 / 50-R2	-125%	2020 / 50-R2	-154%			2020 / 50-R2	-154%
341.20	Internal Combustion Structures								
	Chipewyan Lake	2028 / 50-R2	-6%	2021 / 50-R2	-9%			2021 / 50-R2	-9%
	Fawcet River	2029 / 50-R2	-22%	2045 / 50-R2	-24%			2045 / 50-R2	-24%
	Fort Chipewyan	2042 / 50-R2	-2%	2079 / 50-R2	-2%			2079 / 50-R2	-2%
	Garden River	2017 / 50-R2	-6%						
	Indian Cabins	2037 / 50-R2	-3%	2045 / 50-R2	-13%			2045 / 50-R2	-13%
	Mobile Gen	2022 / 50-R2	-5%	2025 / 50-R2	-147%			2025 / 50-R2	-147%
	Narrows Point	2031 / 50-R2	-10%	2021 / 50-R2	-20%			2021 / 50-R2	-20%
	Pallisades	2018 / 50-R2	-125%	2020 / 50-R2	-168%			2020 / 50-R2	-168%
	Peace Point	2033 / 50-R2	-9%	2048 / 50-R2	-21%			2048 / 50-R2	-21%
	Steen River Town	2032 / 50-R2	-5%	2046 / 50-R2	-12%			2046 / 50-R2	-12%
	Touchwood	2031 / 50-R2	-7%	2046 / 50-R2	-5%			2046 / 50-R2	-5%
342.20	Internal Combustion Fuel Holders								
	Chipewyan Lake	2028 / 35-R3	-6%	2021 / 35-R3	-9%			2021 / 35-R3	-9%
	Fawcet River	2029 / 35-R3	-22%	2045 / 35-R3	-22%			2045 / 35-R3	-22%
	Fort Chipewyan	2042 / 35-R3	-2%	2079 / 35-R3	-24%			2079 / 35-R3	-24%
	Garden River	2017 / 35-R3	-6%						
	Indian Cabins	2037 / 35-R3	-3%	2045 / 35-R3	-13%			2045 / 35-R3	-13%
	Narrows Point	2031 / 35-R3	-10%	2021 / 35-R3	-10%			2021 / 35-R3	-10%
	Pallisades	2018 / 35-R3	0%	2020 / 35-R3	-38%			2020 / 35-R3	-38%
	Peace Point	2033 / 35-R3	-9%	2048 / 35-R3	-21%			2048 / 35-R3	-21%
	Steen River Town	2032 / 35-R3	-5%	2046 / 35-R3	-12%			2046 / 35-R3	-12%
	Touchwood	2031 / 35-R3	-7%	2046 / 35-R3	-28%			2046 / 35-R3	-28%
343.10	Gas Turbine Generators	2018 / 35-R2	-1%	2020 / 35-R2	-1%			2020/ 35-R2	-1%
343.25	Internal Combustion Generators								
	Chipewyan Lake	2028 / 25-R3	-6%	2021 / 25-R3	-10%			2021 / 25-R3	-10%
	Fawcet River	2029 / 25-R3	-22%	2045 / 25-R3	-34%			2045 / 25-R3	-34%
	Fort Chipewyan	2042 / 25-R3	-2%	2079 / 25-R3	-63%			2079 / 25-R3	-63%

USA	Description	Currently approved 2015-2017 Decision 20272-D01-2016		AET proposed 2020-2022 parameters Exhibit 24964-X0033.02		UCA proposed alternatives only 2020 2022 parameters Exhibit 24964-X0445		Commission approved 2020-2022 parameters Proceeding 24964	
		YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.
	Garden River	2017 / 25-R3	-6%						
	Indian Cabins	2037 / 25-R3	-3%	2045 / 25-R3	-10%			2045 / 25-R3	-10%
	Mobile Gen	2022 / 25-R3	-5%	2022 / 25-R3	-3%			2022 / 25-R3	-3%
	Narrows Point	2031 / 25-R3	-10%	2021 / 25-R3	-10%			2021 / 25-R3	-10%
	Pallisades	2018 / 25-R3	-1%	2020 / 25-R3	-12%			2020 / 25-R3	-12%
	Peace Point	2033 / 25-R3	-9%	2048 / 25-R3	0%			2048 / 25-R3	0%
	Steen River Town	2032 / 25-R3	-5%	2046 / 25-R3	-14%			2046 / 25-R3	-14%
	Touchwood	2031 / 25-R3	-7%	2046 / 25-R3	-28%			2046 / 25-R3	-28%
345.10	Gas Turbine Accessory	2018 / 25-R1.5	0%	2020 / 25-R1.5	0%			2020 / 25-R1.5	0%
345.20	Internal Combustion Accessory Electrical Equipment								
	Chipewyan Lake	2028 / 35-R2	-6%	2021 / 35-R2	-10%			2021 / 35-R2	-10%
	Fort Chipewyan	2042 / 35-R2	-2%	2079 / 35-R2	-63%			2079 / 35-R2	-63%
	Garden River	2017 / 25-R3	-6%						
	Indian Cabins	2037 / 35-R2	-3%	2045 / 35-R2	0%			2045 / 35-R2	0%
	Narrows Point	2031 / 35-R2	-10%	2021 / 35-R2	0%			2021 / 35-R2	0%
	Pallisades	2018 / 35-R2	0%	2020 / 25-R3	0%			2020 / 25-R3	0%
	Peace Point	2033 / 35-R2	-9%	2048 / 35-R2	0%			2048 / 35-R2	0%
	Steen River Town	2032 / 35-R2	-5%	2046 / 35-R2	-14%			2046 / 35-R2	-14%
	Touchwood	2031 / 35-R2	-7%	2046 / 35-R2	-28%			2046 / 35-R2	-28%
345.25	Internal Combustion Generating Units			2020 / 25-R3	0%			2020 / 25-R3	0%
346.10	Gas Turbine Miscellaneous Equipment	2018 / 25-R1.5	0%	2020 / 25-R1.5	0%			2020 / 25-R1.5	0%
346.20	Internal Combustion Miscellaneous Electrical Equipment								
	Fawcet River	2029 / 40-R3	-22%	2045 / 40-R3	-261%			2045 / 40-R3	-261%
	Fort Chipewyan	2042 / 40-R3	-2%	2079 / 40-R3	-24%			2079 / 40-R3	-24%
	Garden River	2017 / 40-R3	-6%						
	Indian Cabins	2037 / 40-R3	-3%	2045 / 40-R3	-13%			2045 / 40-R3	-13%
	Narrows Point	2031 / 40-R3	-10%	2021 / 40-R3	-20%			2021 / 40-R3	-20%
	Pallisades	2018 / 40-R3	0%	2020 / 40-R3	0%			2020 / 40-R3	0%
	Peace Point	2033 / 40-R3	-9%	2048 / 40-R3	-21%			2048 / 40-R3	-21%
	Steen River Town	2032 / 40-R3	-5%	2046 / 40-R3	-12%			2046 / 40-R3	-12%
	Touchwood	2031 / 40-R3	-7%	2031 / 40-R3	-28%			2031 / 40-R3	-28%
	Transmission facilities								
350.10	Land Rights	75-R3	0%	75-SQ	0%			75-SQ	0%
353	Substation Equipment	53-R3	-15%	49-R3	-20%		-15%	53-R3	-20%
353.02	HVDC Substation	53-R3	-15%	43-R2.5	-20%	53-R3	-15%	50-R3	-20%
353.10	Communications Structures and Equipment	25-R2	0%	25-R3	0%	30-R2.5		25-R3	0%
354	Towers and Fixtures	65-R4	-25%	60-R3	-30%	65-R4 / 65-R3	-25%	60-R3	-25%

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		YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.	YFR/Int. Ret. Life	N.S.
354.01	Towers - ISO Rule 502.2 Compliant			67-R2.5	-30%	67-R4	-25%	67-R3	-25%
355	Poles and Fixtures	60-R2	-90%	55-R2	-90%	60-R2	-53%	60-R2	-90%
356	Overhead Conductors Poles	65-R3	-50%	65-R3	-50%			65-R3	-50%
356.10	Overhead Conductors Towers	65-R4	-30%	65-R4	-30%			65-R4	-30%
	McNeill Convertor Station								
350.1	Land Rights	2035 / 45-R4	0%	to be combined with USA 350.10					
355	Poles and Fixtures	2035 / 45-R3	-90%	to be combined with USA 355					
356	Overhead Conductors Poles	2035 / 45-R3	-50%	to be combined with USA 356					
353	Substation Equipment	2035 / 45-R2.5	-15%	to be combined with USA 353.02					
	General Plant								
390	Structures and Improvements	50-R2.5	-5%	45-R2.5	-5%			45-R2.5	-5%
391	Office Furniture and Equipment	15-SQ	0%	15-SQ	0%			15-SQ	0%
391.10	Computer Equipment and Accessories	5-SQ	0%	5-SQ	0%			5-SQ	0%
392.10	Transportation Equipment – Category 1	8-L1.5	10%	8-L1.5	10%			8-L1.5	10%
392.20	Transportation Equipment – Category 2	9-L2	10%	9-L2	15%			9-L2	15%
392.30	Transportation Equipment – Category 3	18-S0	20%	19-S0	15%			19-S0	15%
392.40	Transportation Equipment – Category 4	10-L3	20%	11-L2.5	25%			11-L2.5	25%
	Transportation Equipment – Category 5	9-L2	10%	to be combined with USA 392.20					
	Transportation Equipment – Category 6	18-S0	20%	to be combined with USA 392.30					
394.00	Tools and Instruments	10-SQ	0%	10-SQ	0%			10-SQ	0%
399.20	Leaseholds	25-R2	0%	10-SQ	0%			10-SQ	0%
391.22	Software - major	10-SQ	0%	10-SQ	0%			10-SQ	0%
391.21	Software - minor	7-SQ	0%	7-SQ	0%			7-SQ	0%
391.20	Software - desktop	3-SQ	0%	3-SQ	0%			3-SQ	0%