



**ATCO Electric Ltd. and  
ATCO Gas and Pipelines Ltd.**

**2021 Performance-Based Regulation Rate Implementation**

**June 18, 2021**

**Alberta Utilities Commission**

Decision 26360-D01-2021

ATCO Electric Ltd. and ATCO Gas and Pipelines Ltd.  
2021 Performance-Based Regulation Rate Implementation  
Proceeding 26360

June 18, 2021

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## 1 Decision summary

1. In this decision, the Alberta Utilities Commission considers an application from ATCO Electric Ltd. and ATCO Gas and Pipelines Ltd., collectively referred to as the ATCO Utilities, in response to the Commission direction regarding their respective treatment of the deferred amounts resulting from the 2021 rate relief approved in Decision 26170-D01-2020.<sup>1</sup> For the reasons that follow, the Commission approves a collection for the 2021 deferred amounts, related to the ATCO Utilities' 2021 distribution rates beginning January 1, 2022, and the implementation of a 12-month shortfall rider (Rider S) to collect outstanding depreciation expense balances from 2018 to 2020 effective July 1, 2021, for ATCO Gas. Further, the Commission approves carrying costs on the 2021 deferred amounts based on Rule 023: *Rules Respecting Payment of Interest*, which specifies that interest will be calculated at a rate equal to the Bank of Canada's bank rate plus 1½ per cent.

## 2 Introduction and background

2. In Decision 26170-D01-2020, the Commission approved the ATCO Utilities' proposal to keep the distribution portion of their electricity and gas rates unchanged from the 2020 approved rates, effective January 1, 2021. This rate freeze, i.e., a deferral of the 2021 distribution rates increase, did not extend to flow-through charges and rate riders and they went into effect on January 1, 2021, as approved in the relevant decisions.

3. Specifically for ATCO Electric, the 2021 electric transmission access rates were not subject to the rate freeze and went into effect on January 1, 2021. ATCO Electric's customers continued to see the amounts collected or refunded in their 2021 electricity rates as a result of flowing through the non-distribution charges such as Rider S, Rider G and Rider B.<sup>2</sup> Similarly, customers of ATCO Gas continued to see the amounts collected or refunded in their 2021 gas rates as a result of flowing through the non-distribution charges such as the carbon levy and Rider T.<sup>3</sup>

4. In Decision 26170-D01-2020, the Commission directed the ATCO Utilities to submit an application by March 1, 2021, to address the following issues:

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<sup>1</sup> Decision 26170-D01-2020: ATCO Electric Ltd. and ATCO Gas and Pipelines Ltd., 2021 Interim Rate Relief Request, Proceeding 26170, December 18, 2020.

<sup>2</sup> ATCO Electric's Rider S is used to deal with the amounts in the Alberta Electric System Operator (AESO) demand transmission service deferral account; Rider G is used to deal with the annual transmission access charge deferral account true-up amounts to flow-through the AESO tariff charges; Rider B is a Balancing Pool adjustment ride that is designed to flow through a Balancing Pool refund from the AESO.

<sup>3</sup> ATCO Gas's Rider T is used to deal with gas transmission service charges.

- (i) expected time period over which the rate mitigation will be in effect and proposed date for implementing the 2021 performance-based regulation (PBR) rates;
- (ii) the resulting magnitude of the deferred amounts;
- (iii) treatment of any applicable carrying costs;
- (iv) time period over which the amounts are to be collected from customers; and
- (v) the resulting impact to customers, as well as any other issues relevant to the rate mitigation.

5. As a result of this direction, the ATCO Utilities filed the current application to address the collection of the 2021 deferred amounts from their respective electricity and gas distribution customers.

6. The Commission issued a notice of application on March 3, 2021. The Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA) intervened in the proceeding. The main process steps for this proceeding consisted of one round of information requests (IRs) to the ATCO Utilities, responses to IRs from the ATCO Utilities, argument and reply argument. The Commission considers the record of this proceeding to have closed on April 21, 2021, with the filing of reply argument.

7. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. 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.

### **3 Issues**

#### **3.1 The magnitude of 2021 deferred amounts**

8. The ATCO Utilities estimated the 2021 deferred amounts, prior to carrying costs, to be \$62 million for ATCO Electric and \$53 million for ATCO Gas (net of Rider S), by the end of 2021. These amounts will be captured in a deferral account and recorded monthly.

9. The ATCO Utilities explained that they calculated the estimated 2021 deferred amounts by comparing the rates that would have been in place for 2021 (in accordance with the approvals in Decision 25864-D01-2020<sup>4</sup> for ATCO Electric and in Decision 25863-D01-2020<sup>5</sup> for ATCO Gas) to the interim rates approved in Decision 26170-D01-2020 for both distribution utilities. These deferred amounts were calculated using the forecast billing determinants as approved in their respective 2021 annual PBR rate adjustment decisions. The ATCO Utilities stated, however, that the actual 2021 deferred amounts for both distribution utilities will be calculated

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<sup>4</sup> Decision 25864-D01-2020: ATCO Electric Ltd., 2021 Annual Performance-Based Regulation Rate Adjustment Proceeding 25864, December 18, 2020.

<sup>5</sup> Decision 25863-D01-2020: ATCO Gas and Pipelines Ltd., 2021 Annual Performance-Based Regulation Rate Adjustment, Proceeding 25863, December 18, 2020.

on a monthly basis using actual customer billing determinants to ensure recovery of the revenue they would have collected had final 2021 distribution rates been in place.

10. ATCO Gas indicated that its approved 2021 PBR rates also included approval of the collection of depreciation expense balances of approximately \$74 million from the period of 2018 to 2020 through Rider S<sup>6</sup> in 2021 and 2022. The Rider S proposal is further discussed in Section 3.2.1 below. Therefore, the total impact of the 2021 rate deferral for ATCO Gas, prior to carrying costs, is estimated to be \$91 million at December 31, 2021, made up of the \$53 million collection of the 2021 deferred amounts in addition to the \$38 million of the remainder of the depreciation expense balances related to 2018 to 2020.

11. The Commission is satisfied with the calculations used by the ATCO Utilities to determine the estimated 2021 deferred amounts, using the billing determinants as approved in their respective 2021 annual PBR rate adjustment decisions. The Commission is also satisfied with the methodology proposed by the ATCO Utilities that determines the actual 2021 deferred amounts on a monthly basis using actual customer billing determinants as opposed to using forecast billing determinants. The Commission accepts the ATCO Utilities' explanation that this methodology will reflect the revenue they would have collected had the 2021 distribution rates been in place.

### **3.2 The effective date and the time period for collection of 2021 deferred amounts through customer rates**

12. The ATCO Utilities proposed to commence collection of the 2021 deferred amounts on January 1, 2023, to coincide with the step change in rates as a result of the 2023 cost-of-service review.<sup>7</sup> In the ATCO Utilities view, doing so would mitigate large fluctuations in customer rates that may result when any efficiencies that were implemented by the utilities during the 2018 to 2022 PBR term will be flowed through to customer rates beginning January 1, 2023, as part of the 2023 cost-of-service review. The ATCO Utilities further indicated that the timeframe to collect the 2021 deferred amounts may differ for ATCO Gas and ATCO Electric, and will depend on the magnitude of the amounts outstanding, the impact of PBR rebasing on 2023 distribution rates and the mitigation of any rate shock. The ATCO Utilities explained that the collection should be completed as soon as practical and no later than the end of 2027, in order to minimize intergenerational inequity.<sup>8</sup>

13. The UCA supported the ATCO Utilities' proposal for collecting the 2021 deferred amounts, as reflected in the amended application (discussed in Section 3.3 below), and stated that collection should only occur after the Commission has approved a detailed collection plan, including duration, timing and the methodology employed by the ATCO Utilities.<sup>9</sup>

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<sup>6</sup> ATCO Gas's Rider S was approved in Decision 24188-D01-2020: ATCO Gas, a division of ATCO Gas and Pipelines Ltd., 2019 Rate Rider S, Proceeding 24188, July 25, 2019, to collect a portion of 2018-2020 depreciation expense shortfall related to its 2018 depreciation study.

<sup>7</sup> As set out in Bulletin 2021-04, Stakeholder consultations to evaluate performance-based regulation in Alberta and to determine process to establish 2023 rates for distribution facility owners, March 1, 2021, the Commission determined to proceed with a one-year cost-of-service review based on 2023 forecast costs. The rates approved for 2023 under this cost-of-service review may be used as going-in rates for any subsequent PBR term.

<sup>8</sup> Exhibit 26360-X0001, application, paragraphs 12-14.

<sup>9</sup> Exhibit 26360-X0052, UCA argument, paragraphs 8 and 21.

14. The Commission has reviewed various collection period scenarios provided by ATCO Electric and ATCO Gas and is of the view that the collection by each utility should begin as soon as possible in order to balance the effects of rate shock and intergenerational inequity, and to reduce carrying costs.

15. In response to a Commission IR,<sup>10</sup> the ATCO Utilities provided estimated customer bill impacts for a variety of collection scenarios over different time periods between January 1, 2022, and December 31, 2025, including scenarios reflecting different carrying cost methodologies. Based on the information provided for ATCO Electric, a two-year collection period from January 1, 2022, to December 31, 2023, would result in an annual total bill (transmission, distribution and retail energy) increase for the residential rate class of approximately four per cent. For ATCO Gas, collecting for the same period would result in an annual total bill (including carbon levy) increase for the low-use rate class of approximately two per cent for each of ATCO Gas North and ATCO Gas South. In the Commission's view, these bill impacts are acceptable as they reasonably balance the competing objectives of recovering of the 2021 deferred amounts in a timely manner, while minimizing intergenerational inequity and carrying costs as compared to the longer timeframe proposed by the ATCO Utilities. However, the Commission recognizes that these estimated bill impacts do not include any other distribution rate changes that may take place in the future.

16. As a result, the Commission directs that each of the ATCO Utilities, as part of their 2022 annual PBR rate adjustment filings, to submit their individual plans to implement and collect the 2021 deferred amounts starting January 1, 2022. As part of the implementation plan, the ATCO Utilities are directed to provide the forecast customer rate impacts and any rate shock mitigation proposals to ensure there is no rate shock (i.e., no increase of greater than 10 per cent) on customer bills on a total bill basis, as a result of each utility's distribution rate increases over each of the two-year periods. As part of the rate shock mitigation proposal, if required, the ATCO Utilities should phase in the collection to recover as much of the balance as possible in 2022, while avoiding rate shock, with the intent of collecting any remaining balance in 2023. While it is the Commission's preference that the 2021 deferred amounts be collected over a two-year period, it is possible due to rate shock mitigation that the collection period may need to be longer than two years, if required, upon review of each of the ATCO Utilities implementation plans.

### **3.2.1 ATCO Gas – Rider S**

17. ATCO Gas proposed to collect \$74 million of depreciation expense balances related to the years 2018 to 2020 through Rider S. Rider S would be implemented effective July 1, 2021, to June 30, 2022, to collect the depreciation expense from customers, with \$36 million to be collected in 2021, and \$38 million to be collected in 2022. ATCO Gas explained that it is seeking approval to implement this rider starting July 1, 2021, to June 30, 2022, due to the magnitude of the depreciation expense balances and in order to phase in a portion of the collection, and to start collecting in 2021 would help mitigate rate shock to customers in future years.

18. ATCO Gas is requesting approval for the proposed Rider S amounts for July 1, 2021, to December 31, 2021. It will provide its calculations of the Rider S values for January 1, 2022, to

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<sup>10</sup> Exhibit 26360-X0020, ATCO-AUC-2021MAR30-001.

June 30, 2022, as part of the 2022 annual PBR rate adjustment filing due to changes related to its recently approved cost-of-service study in Decision 25428-D01-2020.<sup>11</sup>

19. The UCA supported ATCO Gas's Rider S proposal to begin collecting on July 1, 2021, as it avoids overlap with other significant rate changes, and the proposal would reduce the potential for rate shock.<sup>12</sup>

20. ATCO Gas provided the estimated annual total bill impacts of implementing the Rider S effective July 1, 2021. For ATCO Gas's low-use rate class, the annual increase to the total bill of customers in both the north and the south service territories is estimated to be approximately three per cent.<sup>13</sup>

21. The Commission agrees with ATCO Gas's proposal to begin collecting the 2018-2020 depreciation expense balances through Rider S beginning on July 1, 2021, over a one-year period as it reasonably balances the competing objectives of recovering of these balances in a timely manner, while minimizing intergenerational inequity and carrying costs. This collection period is also unlikely to result in rate shock, as shown in the estimated annual total bill changes provided by ATCO Gas. Accordingly, the Commission approves ATCO Gas's proposed Rider S rates effective July 1, 2021, to December 31, 2021, as attached in [Appendix 3](#) for the north, and [Appendix 4](#) for the south. The Commission directs ATCO Gas to file its updated Rider S calculations for January 1, 2022, to June 30, 2022, as part of the 2022 annual PBR rate adjustment filing.

### 3.3 Carrying costs applied to the 2021 deferred amounts

22. The Commission may approve the payment of interest, i.e., carrying costs, on adjustments of utility costs or rates when there is a time lag between when costs were incurred and when those costs are recovered through the implementation of the necessary rate adjustment. Such a time lag exists in the current application and 2021 deferred amounts; therefore, in this section, the Commission considers the carrying cost calculation that applies to the 2021 deferred amounts.

23. In their application, the ATCO Utilities proposed that the actual annual weighted average cost of capital be used to calculate the carrying costs associated with their rate increase deferral amount balances.<sup>14</sup> After responses to IRs, the ATCO Utilities updated their application to change the calculation of carrying costs using the interest calculations in Rule 023. To support the change, the ATCO Utilities informed the Commission that they are pursuing financing alternatives, that given the unique characteristics of their rate relief program, may qualify them for a loan that would provide financing costs comparable to the interest rate under Rule 023.<sup>15</sup> The UCA agreed with the ATCO Utilities proposal to calculate carrying costs using Rule 023.<sup>16</sup>

24. The CCA stated in argument that a rate of 0.965 per cent, which is calculated based on the average of the two-year and three-year credit spreads from three different banks for Canadian

<sup>11</sup> Decision 25428-D01-2020: ATCO Gas and Pipelines Ltd., 2020 General Rate Application – Phase II, Proceeding 25428, December 21, 2020.

<sup>12</sup> Exhibit 26360-X0052, UCA argument, paragraph 25.

<sup>13</sup> Exhibit 26360-X0001, application, Table 1.

<sup>14</sup> Exhibit 26360-X0001, application, paragraph 15.

<sup>15</sup> Exhibit 26360-X0020, ATCO-AUC-2021MAR30-001, PDF pages 4-5.

<sup>16</sup> Exhibit 26360-X0052, UCA argument, paragraph 17.



utilities for March 2021 is more in line with market rates for debt, and claimed that the higher rate (of two per cent)<sup>17</sup> requested by the ATCO Utilities would harm customers, especially in the current financial environment.<sup>18</sup>

25. The Commission finds that the new methodology to calculate carrying costs, as recommended by the CCA, is not reasonable.

26. The Commission finds that applying the interest rate according to Rule 023 to determine the carrying costs is reasonable considering that using the Bank of Canada rate plus 1½ per cent to reflect the costs of financing the 2021 deferred amounts is an established method. Further, the Commission has approved the application of Rule 023 to similar types of deferred amounts (for example, K and Z factor deferred revenue collections) in ATCO Electric's and ATCO Gas's respective annual PBR rate adjustment decisions.<sup>19</sup> Accordingly, the Commission directs ATCO Electric and ATCO Gas to apply Rule 023 to calculate the carrying costs for their respective 2021 deferred amounts, as part of their respective 2022 annual PBR rate adjustment filings.

#### 4 Order

27. It is hereby ordered that:

- (1) ATCO Electric Ltd., as part of its 2022 annual performance-based regulation rate adjustment filing, is to submit its individual plan to implement and collect the 2021 deferred amounts beginning on January 1, 2022.
- (2) ATCO Gas and Pipelines Ltd., as part of its 2022 annual performance-based regulation rate adjustment filing, is to submit its individual plan to implement and collect the 2021 deferred amounts beginning on January 1, 2022.
- (3) ATCO Gas and Pipelines Ltd.'s Rider S rates, attached in Appendix 3 for the north, and Appendix 4 for the south, are approved, effective July 1, 2021, to December 31, 2021.

Dated on June 18, 2021.

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<sup>17</sup> Exhibit 26360-X0022, Carrying Costs - Rule 023 schedule, where ATCO Electric used the bank rate for March 27, 2020, onward, of 0.5 per cent.

<sup>18</sup> Exhibit 26360-X0051, CCA argument, paragraphs 7-12.

<sup>19</sup> Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012, paragraphs 972 and 983.

**Alberta Utilities Commission**

*(original signed by)*

Carolyn Dahl Rees  
Chair

*(original signed by)*

Douglas A. Larder, QC  
Vice-Chair

## Appendix 1 – Proceeding participants

<b>Name of organization (abbreviation)</b> <b>Company name of counsel or representative</b>
ATCO Electric Ltd. and ATCO Gas and Pipelines Ltd. (ATCO Utilities) Bennett Jones LLP
Consumers' Coalition of Alberta (CCA)
Office of the Utilities Consumer Advocate (UCA) Russ Bell & Associates Inc. Brownlee LLP

Alberta Utilities Commission  Commission panel C. Dahl Rees, Chair D.A. Larder, QC, Vice-Chair  Commission staff A. Sabo (Commission counsel) E. Deryabina A. Corsi A. Spurrell B. Edwards
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## Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. As a result, the Commission directs that each of the ATCO Utilities, as part of their 2022 annual PBR rate adjustment filings, to submit their individual plans to implement and collect the 2021 deferred amounts starting January 1, 2022. As part of the implementation plan, the ATCO Utilities are directed to provide the forecast customer rate impacts and any rate shock mitigation proposals to ensure there is no rate shock (i.e., no increase of greater than 10 per cent) on customer bills on a total bill basis, as a result of each utility's distribution rate increases over each of the two-year periods. As part of the rate shock mitigation proposal, if required, the ATCO Utilities should phase in the collection to recover as much of the balance as possible in 2022, while avoiding rate shock, with the intent of collecting any remaining balance in 2023. While it is the Commission's preference that the 2021 deferred amounts be collected over a two-year period, it is possible due to rate shock mitigation that the collection period may need to be longer than two years, if required, upon review of each of the ATCO Utilities implementation plans. .... paragraph 16
2. The Commission agrees with ATCO Gas's proposal to begin collecting the 2018-2020 depreciation expense balances through Rider S beginning on July 1, 2021, over a one-year period as it reasonably balances the competing objectives of recovering of these balances in a timely manner, while minimizing intergenerational inequity and carrying costs. This collection period is also unlikely to result in rate shock, as shown in the estimated annual total bill changes provided by ATCO Gas. Accordingly, the Commission approves ATCO Gas's proposed Rider S rates effective July 1, 2021, to December 31, 2021, as attached in Appendix 3 for the north, and Appendix 4 for the south. The Commission directs ATCO Gas to file its updated Rider S calculations for January 1, 2022, to June 30, 2022, as part of the 2022 annual PBR rate adjustment filing. .... paragraph 21
3. The Commission finds that applying the interest rate according to Rule 023 to determine the carrying costs is reasonable considering that using the Bank of Canada rate plus 1½ per cent to reflect the costs of financing the 2021 deferred amounts is an established method. Further, the Commission has approved the application of Rule 023 to similar types of deferred amounts (for example, K and Z factor deferred revenue collections) in ATCO Electric's and ATCO Gas's respective annual PBR rate adjustment decisions. Accordingly, the Commission directs ATCO Electric and ATCO Gas to apply Rule 023 to calculate the carrying costs for their respective 2021 deferred amounts, as part of their respective 2022 annual PBR rate adjustment filings. .... paragraph 26

## Appendix 3 – ATCO Gas North Rider S rates

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Appendix 3 - ATCO  
Gas North - Rider S  
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## Appendix 4 – ATCO Gas South Rider S rates

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Appendix 4 - ATCO  
Gas South - Rider S

(consists of 1 page)

Effective July 1, 2021 by Decision 26360-D01-2021  
This Replaces Rider "S"  
Previously Effective January 1, 2020

## ATCO GAS AND PIPELINES LTD. - NORTH RIDER "S"

To be applied to the Fixed Charge, Variable Charge and Demand Charge to all customers unless otherwise specified by specific contracts or the AUC, effective July 1, 2021 to December 31, 2021.

### Low Use Delivery Rate

Fixed Charge	\$0.096 per Day
Variable Energy	\$0.105 per GJ

### Mid Use Delivery Rate

Fixed Charge	\$0.096 per Day
Variable Energy	\$0.110 per GJ

### High Use Delivery Rate

Fixed Charge	\$0.559 per Day
Demand Charge	\$0.016 per GJ per Day of 24 Hr. Billing Demand

Effective July 1, 2021, by Decision 26360-D01-2021  
This Replaces Rider "S"  
Previously Effective January 1, 2020

## ATCO GAS AND PIPELINES LTD. - SOUTH RIDER "S"

To be applied to the Fixed Charge, Variable Charge and Demand Charge to all customers unless otherwise specified by specific contracts or the AUC, effective July 1, 2021 to December 31, 2021.

### Low Use Delivery Rate

Fixed Charge	\$0.109 per Day
Variable Energy	\$0.124 per GJ

### Mid Use Delivery Rate

Fixed Charge	\$0.109 per Day
Variable Energy	\$0.121 per GJ

### High Use Delivery Rate

Fixed Charge	\$0.641 per Day
Demand Charge	\$0.018 per GJ per Day of 24 Hr. Billing Demand

### Irrigation Delivery Rate

Fixed Charge	\$0.081 per Day
Variable Energy	\$0.060 per GJ