



ATCO Electric Ltd.

**2018-2019 General Tariff Application
Second Compliance Filing**

June 29, 2021

Alberta Utilities Commission

Decision 26264-D01-2021

ATCO Electric Ltd.

2018-2019 General Tariff Application Second Compliance Filing
Proceeding 26264

June 29, 2021

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1 Decision summary

1. This decision sets out the Alberta Utilities Commission’s determinations on ATCO Electric Ltd.’s compliance with directions in decisions 24805-D01-2020,¹ 24805-D02-2020,² 25139-D01-2020,³ and 25282-D01-2020.⁴

2. For the reasons that follow, the Commission approves a 2018 revenue requirement in the amount of \$676,400,000, and a 2019 revenue requirement in the amount of \$679,400,000.

3. ATCO Electric Ltd. (ATCO Electric or AET) is required to file, as a post-disposition filing in Proceeding 26264, its revised minimum filing requirement schedules reflecting the Commission’s determinations on: (i) the recovery of costs provided to affiliates and services to outside parties through revenue offsets; and (ii) the Variable Pay Program (VPP) expense, within 30 days of the Commission issuing its decision in Proceeding 26519, or as further directed by that panel in its decision.

4. In accordance with Section 4.3.2 of Rule 005: *Annual Reporting Requirements of Financial and Operational Results*, ATCO Electric is directed to file a revised Rule 005 report, within 30 days of the Commission issuing its decision in Proceeding 26519, or as directed by the Commission in that decision. Consistent with its previously filed 2018 and 2019 Rule 005 submissions, ATCO Electric is required to file the revised Rule 005 report comparing actual results with its approved forecast for 2018 and 2019.

2 Introduction and process summary

5. In Decision 24805-D02-2020, the Commission required AET to file a consolidated application no later than October 13, 2020, to comply with outstanding directions in decisions 22742-D01-2019,⁵ 22742-D02-2019,⁶ 24805-D01-2020, 24805-D02-2020, 25139-D01-2020, and 25282-D01-2020, and to finalize its 2018 and 2019 revenue requirements.

¹ Decision 24805-D01-2020: ATCO Electric Ltd., 2018-2019 General Tariff Application Compliance Filing – Information Technology Common Matters, Proceeding 24805, July 6, 2020.

² Decision 24805-D02-2020: ATCO Electric Ltd., 2018-2019 General Tariff Application Compliance Filing, Proceeding 24805, August 12, 2020.

³ Decision 25139-D01-2020: ATCO Electric Ltd., Decision on Application for Review and Variance of Decision 22742-D02-2019, 2018-2019 Transmission General Tariff Application, Proceeding 25139, May 20, 2020.

⁴ 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.

⁵ Decision 22742-D01-2019: ATCO Electric Ltd., 2018-2019 Transmission General Tariff Application, Proceeding 22742, July 4, 2019.

⁶ Decision 22742-D02-2019: ATCO Electric Ltd., 2018-2019 Transmission General Tariff Application, Proceeding 22742, October 2, 2019.

6. On October 13, 2020, ATCO Electric filed a consolidated application (as required in Decision 24805-D02-2020)⁷ in which it sought approval of its 2018-2019 general tariff application (GTA) second compliance filing. In a letter dated October 21, 2020, the Commission determined that ATCO Electric's consolidated filing application was incomplete because it did not demonstrate compliance with certain Commission directions, closed the application, and directed ATCO Electric to refile its consolidated filing application as soon as practicable.⁸

7. ATCO Electric refiled its consolidated filing application⁹ on January 22, 2021, to address the outstanding directions and the deficiencies noted by the Commission in its October 21, 2020, closure letter. Revised GTA schedules were included in the application to reflect the required adjustments to the 2018 and 2019 GTA revenue requirements.

8. The Commission issued notice¹⁰ of the application on January 26, 2021. Statements of intent to participate were filed by the Consumers' Coalition of Alberta (CCA)¹¹ and The City of Calgary by the February 5, 2021, deadline.¹²

9. The Commission established a process in a February 16, 2021, letter that allowed for information requests (IRs) and IR responses. The process also required the CCA and Calgary to make a submission on whether they wished to file argument and to identify the topics to be included in their argument.¹³ The CCA filed a letter¹⁴ expressing its intent to file argument on labour and full-time equivalent (FTE) costs and related revenue offsets, and on VPP forecasts.

10. The Commission considers the record of this proceeding to have closed on April 1, 2021, the date that ATCO Electric filed its reply argument.¹⁵

11. 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 Discussion on compliance with decision directions and identified issues

12. In Decision 24805-D01-2020 the Commission made findings on AET's compliance with Decision 20514-D02-2019 (IT Common Matters decision),¹⁶ for information technology common matters and the associated costs. In that decision, the Commission approved the majority of AET's application but required a second compliance filing to address outstanding

⁷ Proceeding 25943, Exhibit 25943-X0001.

⁸ Proceeding 25943, Exhibit 25943-X0015, paragraph 10.

⁹ Exhibit 26264-X0001, application.

¹⁰ Exhibit 26264-X0014.

¹¹ Exhibit 26264-X0015.

¹² Exhibit 26264-X0016.

¹³ Exhibit 26264-X0018, Process letter.

¹⁴ Exhibit 26264-X0031.

¹⁵ Exhibit 26264-X0034, AET reply argument.

¹⁶ Decision 20514-D02-2019: The ATCO Utilities (ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd.), Information Technology Common Matters, Proceeding 20514, June 5, 2019.

items. The Commission has determined that AET has complied with each of these directions (set out in [Appendix 3](#) of this decision).

13. Decision 24805-D02-2020 set out the Commission's findings on AET's compliance with directions issued in decisions 22742-D01-2019 and 22742-D02-2019, where the Commission considered AET's 2018-2019 forecast revenue requirement application. The Commission has reviewed AET's responses to the Commission's directions from Decision 24805-D02-2020 and has determined that AET has complied with each of directions 1, 4, 5, 6, 7, 12, 13, 14, 15, 16 and 17 (set out in [Appendix 4](#) of this decision).

14. In Decision 25139-D01-2020, the review and variance panel varied Decision 22742-D02-2019, finding that a variance of the hearing panel's determinations on utility asset disposition and other matters pertaining specifically to the Fort McMurray wildfire, in paragraphs 63 to 65, was in the public interest. The Commission is satisfied that AET has addressed and responded to the varied paragraphs from Decision 25139-D01-2020 (set out in [Appendix 5](#)).

15. In Decision 25282-D01-2020, the Commission approved AET's request to vary the treatment of the costs associated with the relocation of transmission line 9L101 (Kearl Line) to a system cost. It also approved AET's request to vary the recovery of head office rental costs, which resulted in an increase to ATCO Electric's revenue requirement of \$147,370 in 2018, and of \$149,416 in 2019. The Commission is satisfied that AET has addressed and responded to the varied paragraphs from Decision 25282-D01-2020 (set out in [Appendix 6](#)).

16. In the sections that follow, the Commission considers the issues identified by the CCA as contentious, and other issues that require further analysis by the Commission in this compliance proceeding.

3.1 Responses to directions from Decision 24805-D02-2020: 2018-2019 GTA Compliance Filing requiring further analysis

3.1.1 Direction 2 – 2018 FTEs and Direction 3 – 2019 FTEs

17. Direction 2 – 2018 FTEs and Direction 3 – 2019 FTEs of Decision 24805-D02-2020 required AET to update its tariff application to reflect its actual 2018 and 2019 FTEs, and update its revenue requirement and all supporting schedules to reflect the actual labour and fringe costs.

18. In Decision 22742-D01-2019, the Commission directed AET to use its 2018 actual FTEs as the approved FTE complement for 2018.¹⁷ Although AET adjusted its FTEs in Proceeding 24805 to reflect its actual FTEs, it used an average labour dollar amount per FTE, and applied this amount to the change in the number of FTEs to calculate the adjustment to the 2018 revenue requirement. The Commission rejected AET's application of an average labour dollar amount per FTE to the change in FTEs for the purpose of calculating the revenue requirement adjustment,¹⁸ and issued Direction 2 in Decision 24805-D02-2020:

¹⁷ Decision 22742-D01-2019, paragraph 53.

¹⁸ Decision 24805-D02-2020, paragraph 38.

40. In its consolidated filing, AET is directed to use its 2018 actual FTEs and to adjust its labour and fringe costs to reflect its 2018 actual labour costs in its revenue requirement and supporting schedules.¹⁹

19. To confirm the 2019 FTEs, AET included in the compliance filing in Proceeding 24805 the Commission-requested information that required AET to cross-reference positions included in its compliance filing application to the related positions in Proceeding 22742 (Exhibit 22742-X0561). The number of FTEs for which AET provided a cross-reference and those it did not is summarized by the Commission in this table:

Table 1. Summary of 2018 and 2019 FTE positions set out in AET's compliance filing referenced to the 2019 FTEs in Exhibit 22742-X0561

	Capital	Operating and maintenance (O&M)	Allocated to affiliate	Net AET FTE
2019 FTE compliance for positions <u>AET DID</u> cross-reference in IR response	334.2	112.5	39.3	486.0
2019 FTE compliance for positions <u>AET DID NOT</u> cross-reference in IR response	88.5	84.0	8.6	181.0
Total				667.0

20. Upon review of the information provided by AET in response, the Commission found that for the 486 FTEs for which AET provided a cross-reference, the 2019 capital and O&M allocations included in AET's compliance filing differed from what was filed by AET and considered by the panel in Decision 22742-D01-2019. Also of concern to the Commission was that AET was not able to cross-reference 27 per cent²⁰ of the 2019 FTEs included in its compliance filing.

21. As a result of these observations, the Commission issued Direction 3, as follows:

53. ... the Commission directs AET to use its actual number of 2019 FTEs for the 2019 test year in its consolidated filing. Consistent with the direction in paragraph 40 above for calculating the adjustments to 2018 actual FTEs, AET is directed to use its 2019 actual labour and fringe amounts to adjust its schedules to comply with this direction in its consolidated filing.²¹

22. In response to the Commission's directions 2 and 3, AET made the following adjustments to its O&M, and capital labour and fringe costs in its minimum filing requirement (MFR) schedules in its application:

¹⁹ Decision 24805-D02-2020, paragraph 40.

²⁰ = 181/667.

²¹ Decision 24805-D02-2020, paragraph 53.

Table 2. AET labour and fringe adjustment in response to directions 2 and 3

	2018	2019
	(\$ million)	
O&M	4.7	(1.3)
Capital	(12.6)	(0.6)
Total	(7.9)	(1.9)

Source: Exhibit 26264-X0006, Direction Response 02 - Attachment 1, lines 11-13.

23. The Commission requested that AET confirm that it had updated the revenue offsets to match the adjusted labour costs charged to affiliates and services to outside parties as a result of updating for actuals. In response, AET stated:

Not confirmed. In complying with Direction 2 of Decision 24805-D02-2020, AET updated its labour and fringe (which includes VPP) and its FTE amounts to actuals, as this is what AET was directed to do in Direction 2. **Direction 2 did not direct AET to update revenue offsets.** AET's 2018 and 2019 actual labour and fringe and FTEs equal the amounts filed in its Rule 005 filings and 2020-2022 GTA Application.²² [emphasis added]

Commission findings

24. The Commission considers that AET was required to update its revenue offset schedule. AET was clearly directed to reflect its labour and fringe costs, for both 2018 and 2019, in its revenue requirement and supporting schedules. As a result of AET using more of its workforce to provide services to other ATCO affiliates and services to outside parties, the Commission expected that AET should update its revenue offset schedule to account for the additional labour services (FTEs), and costs, to be recovered from ATCO affiliates and outside parties, rather than from transmission ratepayers.

25. The Commission also asked AET²³ to provide the updated revenue offsets adjustment amounts to match the adjusted labour costs charged to affiliates and services to outside parties as a result of updating for actuals. It responded as follows:

Table 3. Required revenue offsets adjustments to adjust labour costs charged to affiliates and services to outside parties as a result of updating for actuals

	2018	2019
	(\$ million)	
Direct O&M	(6.0)	(4.0)
Corporate O&M	0.9	0.8
Total labour and fringe	(5.0)	(3.2)

Source: Exhibit 26264-X0023, response to AET-AUC-2021MAR02-001(e), PDF page 3.

26. AET further explained that “the required revenue offset adjustment amounts did not include an overhead burden as it would have an equal and offsetting adjustment to O&M expense. Further, AET was only directed to update labour and fringe costs to actuals.”²⁴

²² Exhibit 26264-X0023, response to AET-AUC-2021MAR02-0019(d), PDF page 3.

²³ Exhibit 26264-X0021, AUC IR Round 1 to AET, AET-AUC-2021MAR02-001(e), PDF page 2.

²⁴ Exhibit 26264-X0023, response to AET-AUC-2021MAR02-0019(e), PDF page 3.

27. AET had previously explained that 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.²⁵

28. The table below sets out the Commission's summary of AET's overhead rate calculation provided in response to Direction 4:²⁶

Table 4. AET updated overhead burden rate calculation

	2018 forecast	2019 forecast
	(\$ million)	
A. Labour dollars - Functional support (costs not directly billed to affiliate companies):		
Financial Services	2.5	2.5
Human Resources	1.3	1.3
Total	3.8	3.8
B. Capitalized labour dollars - Functional support (costs not directly billed to affiliate companies):		
Financial Services	2.5	2.6
Human Resources	1.0	1.0
Total	3.5	3.5
C. VPP & severance (FR & HR only)		
Total	0.4	0.4
D. P&L indirect costs (excluding salaries):		
Total	1.9	2.0
E. Capitalized indirect costs:		
Total	0.2	0.2
Total indirect cost pool (sections A + B + C + D + E)	9.8	10.0
Salaries - labour base (expensed & capitalized)	95.2	92.6
Overhead rate (labour base)	10%	11%
IT rate	5%	5%
Rent rate	5%	5%
Revised overhead, IT & rent combined rate	20.7%	21.1%

Source: Exhibit 26264-X0009, Direction Response 04 - Decision 24805-D02-2020 Attachment 2.

29. It is unclear to the Commission why an equal and offsetting adjustment to increase O&M expense for the overhead costs would be required for the additional services provided to affiliates and outside parties when costs included in AET's forecast costs, which form part of the overhead costs, have been updated for the following:

- (i) Labour dollars have been updated for actual dollars, as a result of the Commission's direction to use actual FTEs and actual labour and fringe amounts (therefore the actual functional support costs would have also been updated).
- (ii) AET updated the IT forecast costs in response to the Commission's direction to use 2018 actual FTEs in Proceeding 24805, and 2019 actual FTEs in the current consolidated compliance application.
- (iii) Rent expense has been updated in response to Direction 15.

²⁵ Proceeding 22742, Exhibit 22742-X0001.02, updated application, paragraph 275, PDF page 298.

²⁶ Exhibit 26264-X0009, Direction Response 04 - Decision 24805-D02-2020 Attachment 2.

30. The Commission finds that an overhead burden rate should be applied to the added labour costs of providing services to affiliates and outside parties. There were additional AET staff providing services to ATCO affiliates and sales to outside parties. As a result of the additional allocation of labour resources to affiliates and sales to outside parties, AET should not only have recovered the direct labour costs from the external parties, but also recovered overhead charges in accordance with its Inter-Affiliate Code of Conduct. As AET did not provide a breakdown of its total labour and fringe costs that should have been recovered from affiliates and outside parties, the Commission has estimated the amount of overhead costs AET should have recovered from its affiliates and from services to outside parties using the total labour and fringe costs in the table below.

Table 5. Calculation of overhead dollars to be recovered and total amount to be recovered in revenue offsets

	2018	2019
	(\$ million)	
Total labour and fringe	(5.0)	(3.2)
Affiliate overhead burden rate	20%	21%
Overhead dollars to be recovered	(1.0)	(0.7)
Total amount to be recovered in revenue offsets	(6.0)	(3.9)

31. The Commission has determined that compliance with directions 2 and 3 required AET to adjust its revenue offset schedule to reflect the recovery of both the direct cost of the services provided as well as overhead charges for the additional FTEs providing services to affiliates and the recovery of their charged costs. AET's revenue requirement is therefore required to be reduced by an additional \$6.1 million in 2018 and \$3.9 million in 2019. This adjustment properly reflects the allocation and recovery of labour and fringe amounts used to provide services to affiliates and outside parties in those years.

32. AET's responses to directions 2 and 3 from Decision 24805-D02-2020 have highlighted the lack of transparency the Commission has into AET's use of its workforce to provide services to facilities and affiliates, and to services to outside parties (Schedule 8 - Schedule of Transmission Revenue Offsets in the MFRs). The Commission therefore directs AET, in future GTAs, to identify the number of O&M and capital FTEs that provided, or are forecast to provide, services to facilities and affiliates, and services to outside parties, in each of Schedule 5-5 (Schedule of Transmission Manpower) and Schedule 25-5 (Schedule of Corporate Manpower). The Commission has set out in [Appendix 7](#) of this decision how AET is required to provide the information in its schedules.

3.1.2 Direction 8 – Variable Pay Program

33. In Decision 22742-D01-2019, the Commission approved AET's VPP forecast to be set at 80 per cent of the eligible employee payout amounts. As identified in directions 2 and 3, the labour dollars included in AET's first compliance filing were not approved in Decision 24805-D02-2020 and required further adjustment. In that decision, the Commission required updated information on the VPP eligible labour dollar amounts to approve AET's VPP forecast amounts. And at paragraph 124, it issued Direction 8 as follows:

124. The Commission is satisfied with the method that AET used to set VPP forecasts at 80 per cent of the eligible employee payout amounts and finds that AET has complied with 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 1.²⁷

34. In response to Direction 8, AET made the following adjustment to its VPP expense:

Table 6. Effect of Direction 8 on VPP

	Exhibit. 24805-X0005.02 Attachment 4 – VPP		Exhibit 24964-X0002, 2018 and 2019 actual VPP		Impact of updating to actuals in directions 2 & 3	
	2018	2019	2018	2019	2018	2019
	(\$ million)					
Transmission direct O&M - 566	0.6	0.6	0.8	1.0	0.3	0.4
Direct assigned capital	1.8	1.8	0.6	0.6	(1.2)	(1.2)
Non direct assigned capital	0.9	1.0	1.5	2.0	0.5	1.1
Transmission	3.3	3.4	2.9	3.6	(0.4)	0.3
Isolated generation O&M	0.0	0.0	-	0.1	(0.0)	0.1
Corporate O&M	0.6	0.6	0.9	0.5	0.2	(0.1)
Total adjustment	3.9	4.0	3.7	4.2	(0.2)	0.2

Source: Exhibit 26264-X0006, Direction response 02 – Attachment 1, lines 55-66.

35. AET was further requested (in an IR) to provide the calculation of VPP that demonstrated its revised VPP amounts included in the application were 80 per cent of the 2018 and 2019 actual eligible payout amounts. AET's response is reproduced in the table below:

Table 7. Application adjustment required to comply with 80 per cent approval of eligible VPP payout

Description	Exhibit 26264-X0005, Schedule 25-11		Adjustment to align with 80% approval		Revised Schedule 25-11	
	2018	2019	2018	2019	2018	2019
	(\$ million)					
Transmission direct O&M - 566	0.8	1.0	0.1	(0.2)	0.9	0.8
Direct assigned capital	0.6	0.6	0.1	(0.1)	0.7	0.5
Non direct assigned capital	1.5	2.0	0.2	(0.4)	1.7	1.6
Transmission	2.9	3.6	0.4	(0.7)	3.3	3.0
Isolated generation O&M - 557	-	0.1	-	(0.0)	-	0.1
Corporate O&M - 920	0.9	0.5	0.1	(0.1)	1.0	0.4
Total	3.7	4.2	0.5	(0.8)	4.3	3.5
O&M	1.7	1.6	0.2	(0.3)	1.9	1.3
Capital	2.1	2.6	0.3	(0.5)	2.4	2.1
Total	3.7	4.2	0.5	(0.8)	4.3	3.5

Source: Exhibit 26264-X0025, AET-AUC-2021MAR02-002(a) Attachment 1.

36. In its response, AET also stated that it:

... is of the view that the Commission's direction to update the labour to actuals in Decision 24805-D02-2020 Directions 2 and 3 for both 2018 and 2019 supersedes that of

²⁷ Direction 1 refers to Direction 1 of Decision 22742-D01-2019. AET in Direction 1 was required to update its 2018 FTEs for actuals.

Decision 22742-D01-2019, and therefore should appropriately include VPP actuals, which is a component of labour.²⁸

37. The CCA argued that AET incorrectly interpreted Commission directions 2 and 3 as a requirement to update the payout percentages for VPP. The CCA submitted that the Commission did not direct AET to change the VPP forecast to be different than 80 per cent of the eligible amount.²⁹

38. In its reply argument, AET stated that VPP is a component of labour and that when it was directed to use actual labour costs in Decision 24805-D02-2020, it updated all components of its labour costs, including VPP.³⁰

Commission findings

39. The issue of determining what was required to comply with the Commission's direction centres on the use of the word "labour." In Proceeding 24805, in response to the Commission's direction in Decision 22742-D01-2019 requiring AET to use 2018 actual FTEs as the approved 2018 FTE forecast and to use the 2018 actual FTEs as the opening balance for the 2019 FTEs, AET calculated the revenue requirement adjustment for the changes to the 2018 and 2019 FTEs using a "labour dollar per FTE" multiplied by the change in FTEs. The "labour dollar per FTE" amount used to calculate the revenue requirement adjustment in Proceeding 24805 did not include variable pay.³¹ The Commission rejected the use of the "labour dollar per FTE" method and directed AET to use its actual labour and fringe amounts in directions 2 and 3. In reference to both the "labour dollar per FTE" amount used by AET in response to Commission Direction 1, and by the Commission in directing the use of actual labour and fringe, the term "labour" refers to what could also be referred to as "wage" or "salary."

40. AET was asked to calculate the required adjustment to its revenue requirement to set VPP at 80 per cent of the eligible employee payout amounts. In its response, AET calculated that VPP costs would increase by \$0.5 million in 2018 and decrease by \$0.8 million in 2019, as identified in Table 7 above. The change in VPP results in an increase to the 2018 revenue requirement of \$0.2 million, and in a reduction of \$0.3 million to the 2019 revenue requirement.³²

41. The Commission finds that AET's VPP expenditures should be \$4.3 million in 2018 and \$3.5 million in 2019, as detailed in Table 7 above, and that its revenue requirement must therefore be increased by \$0.2 million in 2018, and decreased by \$0.3 million in 2019. This adjustment properly reflects the allocation and recovery of VPP amounts.

3.1.3 Direction 9 – Allowance for funds used during construction (AFUDC) treatment for the purposes of calculating income tax expense

42. In paragraph 171 of Decision 24805-D02-2020, the Commission issued Direction 9, as follows:

²⁸ Exhibit 26264-X0023, response to AET-AUC-2021MAR02-002(a), PDF page 6.

²⁹ Exhibit 26264-X0032, CCA argument, paragraphs 19-25.

³⁰ Exhibit 26264-X0034, AET reply argument, paragraph 10.

³¹ Proceeding 24805, Exhibit 24805-X0006, Direction response 03 – Attachment 1, lines 23-27.

³² Exhibit 26264-X0023, AET Information Responses to AUC AET-AUC-2021MAR02-004 – Attachment 1, PDF pages 17-18.

171. In its consolidated filing, AET is directed to adjust its AFUDC in the “Utility earnings before tax” in Schedule 7-3 of its MFR schedules to comply with the Commission’s findings with respect to AFUDC in this decision. Direction 21 below is related to this direction and will address the years to correct prior AFUDC-related errors in the calculation of income taxes, which were subsequently collected through revenue requirement in prior years.³³

43. AET was required to remove the AFUDC amount from “utility earnings before tax” for the purposes of calculating its income tax expense, which would have resulted in the current tax expense and the future tax expense netting to zero dollars over the life of the asset. The Commission has reviewed Schedule 7-3 and has determined that AET has complied with the direction in this proceeding to remove AFUDC from net income before taxes in its calculation of tax expense.

44. In Decision 25938-D01-2021,³⁴ the Commission approved AET’s request for a review and variance of paragraph 171, and amended paragraph 171 as follows:

~~In its consolidated filing, ATCO Electric is directed to adjust its AFUDC in the “Utility earnings before tax” in Schedule 7-3 of its MFR schedules to comply with the Commission’s findings with respect to AFUDC in this decision.~~ adopt the method outlined in Table 6 of Attachment 1 of ATCO Electric’s reply submissions (Exhibit 25938-X0007 in Proceeding 25938) in accounting for AFUDC in the calculation of the income tax expense component of the 2018-2019 Transmission GTA, and to amend any and all revenue requirement schedules that are affected by the adoption of this method.

The review panel directed ATCO Electric to file a second stage review application to comply with the revision to paragraph 171 above by May 5, 2021.

45. The second stage review application is currently being considered in Proceeding 26519 and the Commission expects that any further required adjustments to these amounts will be addressed as part of Proceeding 26519.

3.2 Consolidated filing adjustments required to revenue requirement

46. As detailed in this decision, the Commission has determined that further adjustments are required to comply with Commission directions 2, 3 and 8 issued in Decision 24805-D02-2020. To bring finality to AET’s 2018-2019 GTA process, and for regulatory and administrative efficiency, however, the Commission has determined that it will not require AET to file a third compliance filing to make the adjustments required to comply with these three directions. The Commission has sufficient information to approve AET’s 2018 and 2019 GTA on a final basis, provided that AET files the required information set out throughout this decision and summarized below.

³³ Decision 24805-D02-2020, paragraph 171.

³⁴ Decision 25938-D01-2021: ATCO Electric Ltd., Decision on Preliminary Question Application for Review of Decision 24805-D02-2020: 2018-2019 General Tariff Application Compliance Filing, Proceeding 25938, Application 25938-A001, April 7, 2021.

Table 8. Adjustments required to comply with Commission directions issued in Decision 24805-D01-2020 and final adjusted revenue requirement

	AET applied-for revenue requirement in compliance filing ³⁵	Further adjustment required to comply with directions 2 and 3 as per Table 5 above	Further adjustment required to comply with Direction 8 per paragraph 41 above	Final adjusted revenue requirement
(\$ million)				
2018 Revenue	682.2	(6.0)	0.2	676.4
2019 Revenue	683.5	(3.9)	(0.3)	679.4

47. AET is directed to file, as a post-disposition filing, its revised MFR schedules reflecting the Commission's determinations on (i) the recovery of costs provided to affiliates and services to outside parties through the revenue offsets; and (ii) VPP expense, within 30 days of the Commission issuing its decision to AET's application in Proceeding 26519, or as further directed by the Commission panel in that proceeding.

3.3 Rule 005

48. In accordance with Section 4.3.2 of Rule 005, the Commission directs AET to submit a revised Rule 005 report, within 30 days of the Commission issuing its decision in Proceeding 26519, or as directed by the Commission in that decision. Consistent with its previously filed 2018 and 2019 Rule 005 submissions, ATCO Electric is required to file the revised Rule 005 report comparing actual results with its approved forecast for 2018 and 2019.

4 Order

49. It is hereby ordered that:

- (1) ATCO Electric Ltd.'s approved 2018 revenue requirement is \$676,400,000.
- (2) ATCO Electric Ltd.'s approved 2019 revenue requirement is \$679,400,000.

Dated on June 29, 2021.

³⁵ Exhibit 26264-X0002, Attachment 1 - Summary of Revenue Requirement.

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. (AET) Bennett Jones LLP
The City of Calgary (Calgary) McLennan Ross Barristers & Solicitors
Consumers' Coalition of Alberta (CCA)

Alberta Utilities Commission
Commission panel A. Michaud, Vice-Chair K. Sebalj, Commission Member
Commission staff C. Strasser F. Alonso

Appendix 2 – Summary of Commission directions

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

1. In accordance with Section 4.3.2 of Rule 005: Annual Reporting Requirements of Financial and Operational Results, ATCO Electric is directed to file a revised Rule 005 report, within 30 days of the Commission issuing its decision in Proceeding 26519, or as directed by the Commission in that decision. Consistent with its previously filed 2018 and 2019 Rule 005 submissions, ATCO Electric is required to file the revised Rule 005 report comparing actual results with its approved forecast for 2018 and 2019. paragraph 4
2. AET’s responses to directions 2 and 3 from Decision 24805-D02-2020 have highlighted the lack of transparency the Commission has into AET’s use of its workforce to provide services to facilities and affiliates, and to services to outside parties (Schedule 8 - Schedule of Transmission Revenue Offsets in the MFRs). The Commission therefore directs AET, in future GTAs, to identify the number of O&M and capital FTEs that provided, or are forecast to provide, services to facilities and affiliates, and services to outside parties, in each of Schedule 5-5 (Schedule of Transmission Manpower) and Schedule 25-5 (Schedule of Corporate Manpower). The Commission has set out in Appendix 7 of this decision how AET is required to provide the information in its schedules. paragraph 32
3. AET is directed to file, as a post-disposition filing, its revised MFR schedules reflecting the Commission’s determinations on (i) the recovery of costs provided to affiliates and services to outside parties through the revenue offsets; and (ii) VPP expense, within 30 days of the Commission issuing its decision to AET’s application in Proceeding 26519, or as further directed by the Commission panel in that proceeding. paragraph 47
4. In accordance with Section 4.3.2 of Rule 005, the Commission directs AET to submit a revised Rule 005 report, within 30 days of the Commission issuing its decision in Proceeding 26519, or as directed by the Commission in that decision. Consistent with its previously filed 2018 and 2019 Rule 005 submissions, ATCO Electric is required to file the revised Rule 005 report comparing actual results with its approved forecast for 2018 and 2019. paragraph 48

Appendix 3 – Summary of Commission directions complied with from Decision 24805-D01-2020

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Direction 2

Accordingly, the ATCO Transmission Utilities have not complied with directions provided in Decision 23793-D01-2019 and Decision 22742-D01-2019 to reflect changes relating to the IT Common Matters decision. To ensure that the proper adjustments are made in accordance with previous compliance filing directions for AP [ATCO Pipelines] and AET, and for consistency amongst the ATCO Transmission Utilities, the Commission directs the ATCO Transmission Utilities to provide the following in their second compliance filing MFR schedules:

- the adjusted opening 2018 rate base balance;
 - the opening 2018 undepreciated capital expenditures balance;
 - the 2018 opening future income tax reserve balance for the adjustments related to the IT common matters 2015 to 2017 actual rate base adjustment;
 - the adjusted 2018, 2019 and 2020 forecasted capital expenditures and rate base;
 - the 2018, 2019 and 2020 undepreciated capital expenditure balance adjustments;
 - the 2018, 2019 and 2020 tax adjustments for the purposes of calculating current tax and future tax; and
 - the 2018 and 2019 future income tax reserve adjustments related to the IT Common Matters decision in each of the ATCO Transmission Utilities individual second compliance filings.
-paragraph 76

Direction 3

AET calculated future income tax (FIT) expenses as part of its 2015, 2016 and 2017 revenue requirement amounts. As explained by AET, FIT is calculated based on forecast tax inputs (e.g., capital cost allowance, depreciation and “running costs”). These inputs include IT costs, which have been adjusted in response to the IT Common Matters decision. As a result, the amount of future income tax that was collected for 2015, 2016 and 2017 should also be adjusted for the change in the tax inputs. AET estimated that a total of \$0.5 million of FIT was overcollected for the years 2015 to 2017 as a result of tax inputs being adjusted to comply with the IT Common Matters decision. AET is directed to refund the FIT amounts for the years 2015, 2016 and 2017 that it should not have collected from customers as a result of its adjusted IT costs. Consistent with the direction in paragraph 76 above, AET is also directed to reflect the effects of the 2018 and 2019 test period adjustments in its corresponding MFR schedules.paragraph 88

Direction 4

The Commission directs the ATCO Transmission Utilities to recalculate the balances using its WACC [weighted average cost of capital] as the interest rate applied to its carrying costs, and to file the resulting refund and regulatory schedules for AET and AP in the compliance filing to this decision.paragraph 94

Direction 5

On this basis, the Commission rejects Calgary's NPV [net present value] proposal. The Commission directs the ATCO Transmission Utilities to remove all IT directed adjustments to direct and indirect capital from rate base in compliance with the IT Common Matters decision in the compliance filing to this decision and in future IT common matters, GRA, GTA or other relevant transmission proceedings and compliance proceedings. paragraph 103

Appendix 4 – Summary of Commission directions complied with from Decision 24805-D02-2020

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Direction 1

AET is directed to file an application, referred to throughout this decision as a “consolidated filing,” to demonstrate its compliance with all applicable outstanding directions. The consolidated filing must be complete and show AET’s compliance with the Commission’s findings and all directions that affect the 2018-2019 revenue requirement found in the decisions referenced in paragraph 13 above. The consolidated filing is not required to address directions that apply solely to future GTAs..... paragraph 15

Direction 4

Accordingly, AET is directed to remove severance costs related to time spent providing affiliate service only during the period of 2014 to 2018 that is included in the \$2.7 million forecast severance approved in this section. AET is further directed to remove the affiliate severance costs from the calculated overhead burden rate, and to recalculate the amount to be recovered from affiliates in its revenue offsets.paragraph 96

Direction 5

Consistent with the Commission’s determination in this decision to deny AET’s request to use its proposed total average hours worked for AET between the years 2004 and 2013 in response to Direction 5, in its consolidated filing, AET is directed to calculate that portion of 2018 severance to be included in its revenue requirement based on the portion of years of service for each employee position severed to adjust for the time spent working for AET since January 1, 2014..... paragraph 103

Direction 6

Consistent with the Commission’s direction in paragraph 96, in its consolidated filing, AET is directed to remove severance costs related to time that employees spent providing affiliate service only during the period from 2014 to 2018.paragraph 104

Direction 7

The Commission denies the inclusion of these positions in determining the severance costs that AET is allowed to recover in its revenue requirement for the test years. AET is directed to confirm, in the consolidated filing, that these 28 positions are excluded from the calculation of its severance costs for the test years.paragraph 112

Direction 12

In conjunction with the Commission’s direction in paragraph 53 regarding AET’s 2019 FTEs, AET is directed to adjust its forecast expenses for this account based on the Commission’s reduction in forecast FTEs in its consolidated filing. Compliance with this direction will be determined in the decision related to the consolidated filing. paragraph 190

Direction 13

Absent any evidence in support of AET's position, the Commission is prepared to accept that escalation of \$1 per square foot would apply every third year as referenced by Avison Young in its letter. Since the escalator would only apply every third year, the Commission will not apply an escalator to the 2018-2019 test period because the third year in which the escalator would first be applied, the year 2020, occurs outside the test years under consideration in this proceeding. The escalator of \$1 per square foot in each of the test years is therefore denied and AET is directed to reflect any changes to its revenue requirement and supporting schedules in the consolidated filing.paragraph 204

Direction 14

Accordingly, the Commission directs AET, in its consolidated filing, to reflect the Commission's variance of the square footage, to 200,000 sq. ft., for the allocation of head office rent costs as directed in Decision 25282-D01-2020.paragraph 208

Direction 15

Given the above determinations, in its consolidated filing, AET is directed to provide a revised Attachment 1 to Direction 41 that uses AET's percentage share of total 2017 facility headcount, for each of the three facilities (ATCO Park, and each of the two other facilities in Calgary and Edmonton), to determine AET's share of rent for each of the facilities. AET is further directed to provide all revised calculations and inputs used in the calculations in its consolidated filing.paragraph 222

Direction 16

As stated in Section 4 of this decision, in Decision 25282-D01-2020 issued on July 28, 2020, the Commission varied the findings in Decision 22742-D01-2019. In particular, the Commission granted AET's request to treat the costs associated with the relocation of the Kearl Line as a system cost, rather than allocating the costs to the owner of the Fort Hills mine as was originally directed in paragraph 442 of Decision 22742-D01-2019. The Commission therefore directs AET to include its forecast costs for the Kearl Line relocation in its consolidated filing to reflect the variance of Decision 22742-D01-2019. paragraph 224

Direction 17

The Commission directed that if there was a second compliance filing to the 2018-2019 GTA, AET was to update its supporting schedules in accordance with the findings in Decision 25139-D01-2020. AET is therefore directed to update its supporting schedules to comply with the directions, as amended by Decision 25139-D01-2020, in its consolidated filing.paragraph 227

Appendix 5 – Summary of Commission directions complied with from Decision 25139-D01-2020

[\(return to text\)](#)

47. Accordingly, paragraphs 63 to 65 of Decision 22742-D02-2019 are varied as follows:

63. Having found the retirement (\$1.9 million) of the assets destroyed in the Fort McMurray wildfire to be an ordinary retirement, and having approved both AET's actual TCM Project 00073 (\$7.6 million) and its proposed RID [reserve for injuries and damages] treatment of power restoration costs (\$0.321 million), it is not necessary for AET to change the established RID treatment. The Commission therefore directs AET to collect ~~both~~ the power restoration costs in the amount of \$0.321 million ~~and the \$7.6 million in actual asset repair and replacement costs (TCM project 00073)~~ through its RID account.
64. As a result of the Commission's findings and direction, and consistent with the established RID mechanism, the destroyed assets (\$1.9 million) will ~~not~~ be retired from AET's accounting records, ~~and nor will~~ the actual repair and replacement costs (\$7.6 million) **will** be capitalized. The Commission directs AET in its compliance filing to the 2018-2019 GTA in Proceeding 24805, to update its ~~RID account~~ and supporting schedules in accordance with these findings.
65. Notwithstanding the above, the Commission considers that the use of the RID account as a mechanism for the recovery of capital costs, in circumstances such as those associated with events like the Fort McMurray wildfire, should be re-examined by AET. In particular, the Commission wishes to consider the ~~continued~~ reasonableness of recovering large capital amounts through this account in light of cost causation and intergenerational matching principles. It also wishes to review the long-term impacts of maintaining an RID account, which excludes physical asset retirements handled through the RID account from direct inclusion in depreciation studies. The Commission directs AET in its next GTA to file with the Commission the findings of its examination of this issue, AET's recommendation on the continuation of its current RID account, and the corollary impacts on AET's depreciation studies of maintaining this account.

Appendix 6 – Summary of Commission directions complied with from Decision 25282-D01-2020

[\(return to text\)](#)

113. It is hereby ordered that:

- (1) ATCO Electric Ltd.'s request to vary the treatment of the costs associated with the relocation of transmission line 9L101 (Kearl Line) to a system cost is approved.
- (2) ATCO Electric Ltd.'s request to vary the square footage for the allocation of head office rental costs is allowed but the increase to 248,743 square footage is denied. The Stage 2 panel confirms the use of a proration formula and the square footage applied to the ratio from the proration formula, $(260/600) \times 21$ per cent, used to calculate the allocation of head office rent costs to ATCO Electric Ltd., is varied to 200,000 square feet instead of the 155,000 square feet directed by the hearing panel in Decision 22742-D01-2019. The resulting increase to ATCO Electric's revenue requirement of \$147,370 in 2018 and of \$149,416 in 2019 shall be incorporated as part of ATCO Electric's second compliance filing to its 2018-2019 general tariff application, if one is ordered at the conclusion of the ongoing compliance proceeding (Proceeding 24805), or as part of ATCO Electric's next application for disposal of transmission deferral accounts and annual filing for adjustment balances.

Appendix 7 – Presentation of FTE information in schedules 5-5 and 25-5

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Appendix 7 - FTE
schedules 5-5 and 25-

(consists of 2 pages)

ATCO Electric Transmission (AET)
 2018-2019 General Tariff Application
 Schedule of Transmission Manpower - Full Time Equivalents (FTEs)
 Annual Averages

Line No.	Description	Cross Reference	2015 Actuals	2016 Actuals	2017 Actuals	Test Period		2015 Applied For:	2016 Applied For:	2017 Applied For:
						2018	2019			
1	2015-17 GTA Complement - 2018-19 GTA Forecast - Permanent (Note 1)		895.0	735.8	744.3	561.5	510.4	944.6	868.6	890.4
2	Vacancy (Negative) Indicates Higher Complement than Applied For		(65.2)	7.4	101.5	-	-	-	21.8	22.3
3	2015-16 Actual 2017-19 Final Adjusted Complement - Perm		960.1	728.4	642.7	561.5	510.4	944.6	846.8	868.1
4	Vacancy Rate		-7.3%	1.0%	13.6%	0.0%	0.0%	0.0%	2.5%	2.5%
5										
6	2015-17 GTA Complement - 2018-19 GTA Forecast - Temporary (Note 1)		23.0	6.0	6.0	9.9	10.9	32.6	31.4	30.5
7	Vacancy (Negative) Indicates Higher Complement than Applied For		(2.5)	(7.9)	(5.6)	-	-	-	0.8	0.8
8	2015-16 Actual 2017-19 Final Adjusted Complement - Temp		25.5	13.9	11.6	9.9	10.9	32.6	30.6	29.7
9	Vacancy Rate		-10.8%	-131.6%	-93.5%	0.0%	0.0%	0.0%	2.5%	2.5%
10										
11	2015-17 GTA Complement - 2018-19 GTA Forecast - Total (Note 1)		918.0	741.8	750.3	571.4	521.3	977.2	900.0	920.9
12	Vacancy (Negative) Indicates Higher Complement than Applied For		(67.7)	(0.5)	95.9	-	-	-	22.6	23.0
13	Final Adjusted Complement		985.6	742.3	654.3	571.4	521.3	977.2	877.4	897.9
14	Vacancy Rate		-7.4%	-0.1%	12.8%	0.0%	0.0%	0.0%	2.5%	2.5%
15										
16	Final Adjusted Complement by Area									
17	Total Operations & Maintenance		271.0	219.5	176.8	151.4	148.4	243.3	290.2	306.8
18	Allocated to Facility Charges, Affiliates, Services to outside parties, and other in Sch		-	-	-	-	-	-	-	-
19	Net Operations & Maintenance									
20										
21	Capital		714.6	522.9	477.5	486.3	450.0	733.9	587.2	590.7
22	Allocated to Facility Charges, Affiliates, Services to outside parties, and other in Sch		-	-	-	-	-	-	-	-
23	Net Capital									
24										
25										
26			985.6	742.3	654.3	637.7	598.5	977.2	877.4	897.5
27										
28	Labour Cost (\$M's)	S. 5-4	118.0	82.3	73.2	66.1	67.2	113.2	98.4	107.2
29										
30	Labour per FTE (\$000's)		119.7	110.8	111.9	103.6	112.2	115.8	112.2	119.4
31										
32										
33										
34	Variance Explanations:									
35										

**ATCO Electric Transmission (AET)
2018-2019 General Tariff Application
Schedule of Corporate Manpower - Full Time Equivalents (FTE's)
Annual Averages**

Line No.	Description	Cross Reference	2015 Actuals	2016 Actuals	2017 Actuals	Test Period		2015 2016 2017 Applied For:		
						2018	2019			
1	2015-17 GTA Complement - 2018-19 GTA Forecast - Permanent (Note 1)		269.6	200.8	201.3	133.6	110.2	276.8	254.1	255.3
2	Vacancy (Negative) Indicates Higher Complement than Applied For		66.5	74.6	59.3	-	-	-	6.4	6.4
3	2015-17 Actual 2018-19 Final Adjusted Complement - Perm		203.1	126.2	142.1	133.6	110.2	276.8	247.7	248.9
4	Vacancy Rate		24.7%	37.1%	29.4%	0.0%	0.0%	0.0%	2.5%	2.5%
5										
6	2015-17 GTA Complement - 2018-19 GTA Forecast - Temporary (Note 1)		4.3	2.0	2.0	11.0	5.2	5.2	5.9	5.7
7	Vacancy (Negative) Indicates Higher Complement than Applied For		1.2	(2.8)	(2.5)	-	-	-	0.1	0.1
8	2015-16 Actual 2015-17 Final Adjusted Complement - Temp		3.1	4.8	4.5	11.0	5.2	5.2	5.7	5.5
9	Vacancy Rate		27.8%	-140.4%	-123.2%	0.0%	0.0%	0.0%	2.5%	2.5%
10										
11	2015-17 GTA Complement - 2018-19 GTA Forecast - Total (Note 1)		273.9	202.8	203.3	144.7	115.4	282.0	260.0	261.0
12	Vacancy (Negative) Indicates Higher Complement than Applied For		67.7	71.8	56.8	-	-	-	6.5	6.5
13	Final Adjusted Complement		206.3	131.0	146.5	144.7	115.4	282.0	253.5	254.5
14	Vacancy Rate		24.7%	35.4%	27.9%	0.0%	0.0%	0.0%	2.5%	2.5%
15										
16	Final Adjusted Complement by Area									
17	Total General and Administrative		72.2	56.2	69.0	70.3	67.1	77.7	82.3	86.2
18	Allocated to Facility Charges, Affiliates, Services to outside parties, and other in Sch 8-1		-	-	-	-	-	-	-	-
19	Net General and Administrative									
20										
21	Capital		134.1	74.9	77.5	70.8	65.4	204.3	171.2	168.3
22	Allocated to Facility Charges, Affiliates, Services to outside parties, and other in Sch 8-1		-	-	-	-	-	-	-	-
23	Net Capital									
24										
25	Other		-	-	-	-	-	-	-	-
26										
27			206.3	131.0	146.5	141.1	132.6	282.0	253.5	254.5
28										
29	Labour Cost (\$M's)	S. 25-4	22.3	17.2	18.2	13.6	14.6	29.0	29.0	30.9
30										
31	Labour per FTE (\$000's)		107.9	131.1	124.3	94.3	126.7	102.8	114.5	121.6
32										
33										
34										
35	Variance Explanations:									
36										