Alberta Utilities Commission

AltaLink Management Ltd.

Decision on Application for Review and Variance of Decision 26509-D01-2022 (Corrigenda) AltaLink Management Ltd. 2022-2023 General Tariff Application (Tariff Refund)

May 13, 2022

Alberta Utilities Commission
Decision 27246-D01-2022
AltaLink Management Ltd.
Decision on Application for Review and Variance of Decision 25609-D01-2022 (Corrigenda)
AltaLink Management Ltd. 2022-2023 General Tariff Application (Tariff Refund)
Proceeding 27246
Application 27246-A001

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1 Summary of panel decision

1. On March 17, 2022, AltaLink Management Ltd., in its capacity as general partner for AltaLink, L.P., filed an application to review and vary Commission Decision 26509-D01-2022 (Corrigenda). AltaLink requested that the Commission review and vary its findings to allow AltaLink to refund $120 million of surplus accumulated depreciation to the Alberta Electric System Operator (the tariff refund or refund). This amount would then be credited to Alberta's electricity customers to reduce their electricity bills in July, August and September 2022.

2. We have decided that AltaLink's proposal would not result in a just and reasonable tariff even though it would provide Alberta's current electricity customers with some modest relief on their electricity bills. AltaLink's proposal would immediately require Alberta's electricity customers to pay back its "refund" with interest and other carrying charges, over the next 46 years.

3. We recognize that it is challenging for many Albertans to pay their electricity bills. However, AltaLink's proposal would result in an average Alberta residential customer receiving a bill reduction of $5 per month in July, August and September 2022. After that, their electricity bills would be higher for the next 46 years than would otherwise be the case. Moreover, a small percentage of the refund would be allocated to residential customers and small commercial customers. Approximately $19 million (or roughly 16 per cent) of the total $120 million refund would flow through to customers identified as residential and approximately $12 million (or roughly 10 per cent) would flow through to small commercial customers.

4. In our opinion, AltaLink's proposal is more properly characterized as a loan. Refunds do not have to be paid back by the person that receives a refund. Unlike a refund, Alberta's electricity customers will have to return the $120 million plus carrying charges to AltaLink. It is currently expected that Alberta electricity customers would pay AltaLink back $251.6 million through increased electricity rates, including approximately $85 million in expected profit to AltaLink's owners.[1]

[1] The expected $85 million return is calculated by using AltaLink's current return on equity of 8.5 per cent. Other components of the expected $251.6 million are comprised of debt financing costs of $68 million (at 3.87 per cent per year); an increase in depreciation expense of $120 million and a reduction of $21 million in income taxes.

2 Background

5. In this decision, the members of the Commission panel who authored the original decision will be referred to as the "hearing panel" and the members of the Commission panel considering the review application will be referred to as the "review panel."

6. AltaLink filed its application to review and vary Decision 26509-D01-2022 (Corrigenda) pursuant to Section 10 of the *Alberta Utilities Commission Act* and Rule 016: *Review of Commission Decisions*.

7. The review application concerns the hearing panel's findings in Section 12.2 of Decision 26509-D01-2022 (Corrigenda). Paragraph 669 of that decision concluded that the economic circumstances anticipated for AltaLink's 2022-2023 test years did not support its proposed refund of $120 million:

> 669. The Commission must carefully consider whether it is just and reasonable to approve a tariff refund now that results in higher transmission rates for Albertans in the future. For this reason, tariff refunds should be used only in exceptional circumstances, such as those identified by the Commission in Decision 26248-D02-2021. The Commission is not persuaded that the exceptional economic circumstances in the first half of 2021 will continue in 2022 and 2023, when AltaLink's proposed refund would be put into effect. Having balanced the benefits of the proposed relief against the future costs, the Commission has found that ratepayers would not be served by approval of the refund.

8. In denying AltaLink's proposed tariff refund, the hearing panel also found that AltaLink's proposal:

- resulted in higher transmission rates for Albertans in the future and was inconsistent with the principle of intergenerational equity;
- was inconsistent with AltaLink's assertion of a declining economy and was in contrast to AltaLink's request to escalate the salaries of its employees, including escalating its executive base pay compensation by more than 10 per cent over 2022-2023, and its request for more full-time equivalent employees, higher debt costs, and higher escalation rates; and,
- did not align with the regulatory principles of gradualism and moderation because AltaLink has an amortization of reserve differences mechanism which refunds to, or collects from, customers any surpluses or shortfalls of accumulated depreciation over the average remaining life of an asset account.

9. The review panel issued a filing announcement for the review application and, by letter dated April 4, 2022, established a process schedule for the proceeding. The Alberta Chambers of Commerce (ACC), the Consumers' Coalition of Alberta (CCA), Energy Associates International (EAI), the Industrial Power Consumers Association of Alberta (IPCAA), and the Office of the Utilities Consumer Advocate (UCA) participated in this proceeding. The review panel considers the record for this proceeding to have closed on April 26, 2022.

10. In reaching its determinations, the review panel has reviewed the pertinent portions of Decision 26509-D01-2022 (Corrigenda) and relevant materials comprising the record of this proceeding and of Proceeding 26509. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the review panel's reasoning relating to a particular matter and should not be taken as an indication that the review panel did not consider all relevant portions of the record with respect to the matter.

3 The Commission's review process

11. The Commission's authority to review its own decisions is discretionary and is found in Section 10 of the *Alberta Utilities Commission Act*. Rule 016 sets out the process the Commission uses to consider an application for review.

12. Usually, the review process has two stages. In the first stage, a review panel decides if there are grounds to review the original decision (the preliminary question). If a review panel decides to review the decision, it moves to the second stage where it decides whether to confirm, vary, or rescind the original decision (the variance question). In this proceeding, the review panel heard the preliminary question and the variance question in one proceeding pursuant to Section 6(2) of Rule 016.

13. AltaLink grounds its review application on Section 5(1)(c) of Rule 016. It argues that there are changed circumstances material to Decision 26509-D01-2022 (Corrigenda), which have occurred since its issuance. AltaLink asserted that the economic conditions that existed at the time Decision 26509-D01-2022 (Corrigenda) was issued on January 19, 2022, no longer apply. AltaLink cited, among other things: (i) the current and ongoing invasion of Ukraine, (ii) the recent rise in oil and gas commodity prices and resulting increases in energy costs for Albertans, (iii) the tight electricity supply market and upward pressure on electricity prices for Albertans, and (iv) increasingly higher levels of inflation and increasing interest rates as constituting materially changed circumstances supporting its review application.

4 Review panel findings

14. For the reasons set out below, the review panel decided to examine AltaLink's request in relation to the $120 million tariff refund; however, upon completing the examination, the review panel has decided to deny the proposed $120 million tariff refund.

4.1 Timing of the review application

15. AltaLink filed its application to review and vary Decision 26509-D01-2022 (Corrigenda) on March 17, 2022, outside the 30-day deadline from that decision's issuance as set out in Rule 016. Despite this, the review panel has exercised its discretion under Section 3(3) of Rule 016 to consider the application. The events relied on by AltaLink occurred or continued to occur after the 30-day deadline for filing a review application had passed.

4.2 Decision on the preliminary question

16. In denying AltaLink's proposed tariff refund, the hearing panel was "not persuaded that the exceptional economic circumstances in the first half of 2021 will continue in 2022 and 2023, when AltaLink's proposed refund would be put into effect" and having balanced the benefits of the proposed relief against the future costs found that "ratepayers would not be served by approval of the refund." Given that the recent economic and geopolitical developments outlined in paragraph 13 above, relate to the hearing panel's assessment of potential benefits of the proposed refund, the review panel is satisfied that these amount to changed circumstances material to Decision 26509-D01-2022 (Corrigenda) which occurred since its issuance. Accordingly, a review on this ground is allowed.

4.3 Decision on the variance question

4.3.1 Summary of decision on the variance question

17. Having decided that the first stage of the review and variance application is met, the review panel has proceeded to the second stage of deciding whether to confirm, vary or rescind certain paragraphs of Decision 26509-D01-2022 (Corrigenda).

18. The review panel finds that AltaLink's proposal does not result in a just and reasonable tariff and denies AltaLink's request to refund $120 million in accumulated depreciation in 2022 for the following reasons:

i. The long-term costs of AltaLink's refund proposal outweigh the short-term benefits. This was a concern that was also noted by the CCA. AltaLink's current proposal to refund $120 million of accumulated depreciation in 2022 provides AltaLink with an estimated additional $251.6 million in revenue requirement over the years 2022-2067.

ii. AltaLink's current proposal to refund $120 million of accumulated depreciation in 2022 provides an average residential customer approximately $5 per month of rate relief for each of July, August and September 2022. The review panel does not agree with AltaLink that this amounts to "significant additional support"[2] to average residential customers, particularly in view of the burden that would be imposed on them in the future.

iii. A small percentage of the refund would be allocated to residential customers and small commercial customers.[3] In particular, approximately $19 million (or roughly 16 per cent) of the total $120 million refund would flow through to customers identified as Residential[4] and approximately $12 million (or roughly

2 Exhibit 27246-X0001, Application, PDF page 3, paragraph 2.

3 "Small commercial customers" refers to Small General Service or Small or Medium Commercial customers: See: Exhibit 27246-X0032, AML-AUC-2022APR14 Attachment 2, Table 1.

4 Exhibit 27246-X0032, AML-AUC-2022APR14 Attachment 2, Table 1, sum of Q3 2022 "Residential" Refund amounts ($2 million + $6.6 million + $4.7 million + $6.1 million = $19.4 million).

10 per cent) would flow through to small commercial customers.[5] These allocations contradict AltaLink's stated reasons for the refund, which focused on the financial hardship facing residential and small commercial customers.[6]

IPCAA, a representative of large industrial customers, stated that it was "prepared to accept the AUC's original Decision on this matter and move on to initiatives that can help save customer dollars in the long-term."[7]

iv. AltaLink's analysis that shows a benefit to Alberta electricity customers resulting from its proposal is incomplete and flawed. AltaLink relies on a 20 per cent interest rate, based on credit card debt, to show a net benefit of $80 million to all Alberta's customers over 46 years resulting from its proposal. There is no evidence on the record that demonstrates a substantial majority of Alberta electricity customers are facing debt rates of 20 per cent, or that credit card interest rates are applicable to the larger consumers of electricity who would receive the majority of AltaLink's refund.

v. The review panel rejects the assertions of AltaLink and Patrick Bowman (on behalf of the UCA) that an immediate refund in 2022 results in a just and reasonable tariff to past, present and future customers.[8] [9] The review panel finds that the refund would not be fair to future customers. There is no persuasive reason why future customers should pay higher electricity rates for 46 years given the modest relief in 2022.

vi. As applied for, AltaLink's refund proposal (in the current review & variance application) increases its revenue requirement by an additional $3.4 million in the years 2022-2023 compared to its previous refund proposal.[10] This incremental benefit to AltaLink is inconsistent with AltaLink's statement that the refund is "overwhelmingly in the public interest."[11]

vii. AltaLink's portrayal of Alberta's economic circumstances ignores the province's recovery from the COVID-19 pandemic and the economic growth experienced in Alberta over the first three months of 2022, which is expected to continue. The review panel does not agree with AltaLink's argument that Alberta's economy has materially deteriorated since the time of AltaLink's application update, on September 3, 2021, or from the hearing panel's January 19, 2022, issuance of Decision 26509-D01-2022 (Corrigenda).

5 Exhibit 27246-X0032, AML-AUC-2022APR14 Attachment 2, Table 1, sum of Q3 2022 "Small General Service" or "Small or Medium Commercial" Refund amounts ($1.7 million + $3 million + $1.3 million + $1.8 million + $1.1 million + $2.7 million = $11.6 million).
6 Exhibit 27246-X0017, AML-AUC-2022APR06-005(b) and (e).
7 Exhibit 27246-X0047, IPCAA Reply Argument.
8 Exhibit 27246-X0001, Application, PDF page 11, paragraph 19.
9 Exhibit 27246-X0038, Evidence of P. Bowman, PDF pages 6-7.
10 Exhibit 27246-X0017, AML-AUC-2022APR06-001(a)(b) and which excludes the incremental impact on depreciation expense resulting from the removal of the amortization of reserve differences true-up.
11 Exhibit 27246-X0001, Application, PDF page 3, paragraph 2.

viii. The review panel has also weighed the benefit to AltaLink's owners arising from its proposal, against the short-term benefits and long-term costs to near term and future Alberta customers. The review panel finds that approval of the refund of $120 million of accumulated depreciation would not result in a just and reasonable tariff.

19. Based on the above, AltaLink has not persuaded the review panel that its revised proposed refund of $120 million of accumulated depreciation would result in a just and reasonable tariff. AltaLink's application to have the review panel vary its original decision in Decision 26509-D01-2022 (Corrigenda) is denied.

20. In the remainder of this decision, the review panel sets out the views of the parties, the review panel's analysis of the issues and its decision.

4.3.2 Summary of the parties' views

21. The CCA expressed concern for the long-term implications for future customers associated with AltaLink's proposal, stating that the proposed refund adds to the rising cost of transmission rates and misses the core issues of an overbuilt system, underutilized assets, excessive shareholder returns and a lack of focus and attention on the efficient management of costs. AltaLink's "solution" has a long-term cost that will force customers to pay for the foreseeable future.[12] [13]

22. IPCAA submitted that rather than continuing to debate an issue already decided by the Commission, it was preferable to "move on to initiatives that can help save customer dollars in the long-term."[14]

23. In contrast, EAI (on behalf of its two major commercial clients) supported AltaLink's proposal as providing urgently needed rate relief. The clients recognized the long-term cost implications associated with the tariff refund, but considered that under the circumstances AltaLink's proposal[15] remains appropriate.

24. The ACC submitted that AltaLink's refund would help offset growing concerns with and the impacts of escalating energy costs, particularly for the small and medium-sized businesses that it represents.[16] [17]

25. P. Bowman, on behalf of the UCA, claimed that a refund in 2022 increased fairness to both current and future customers. He stated that current customers are more likely to have contributed to the surplus of accumulated depreciation because AltaLink existing depreciation methodology collects more depreciation expense in the early years of an asset's life.

12 Exhibit 27246-X0010, CCA letter with SIP, PDF pages 2-3, paragraph 5-7.
13 Exhibit 27246-X0039, CCA argument, PDF page 6, paragraph 13.
14 Exhibit 27246-X0047, IPCAA reply argument, PDF page 2, paragraph 5.
15 Exhibit 27246-X0037, EAI evidence. While supporting AltaLink's proposal, EAI clients would prefer to modify the refund to be implemented over a six-month period to provide balanced relief to both winter and summer peaking loads.
16 Exhibit 27246-X0011, Alberta Chambers of Commerce SIP.
17 Exhibit 27246-X0012, Alberta Chambers of Commerce letter.

Accordingly, it is fair to give current customers the refund benefit now, otherwise future customers would benefit from an artificial and unjustifiable subsidization of their rates, in the absence of a refund to current customers. P. Bowman believed that without the refund, future customers will continue to benefit from AltaLink's approved depreciation methodology and are therefore not unduly harmed by the long-term rate increases that would result from a tariff refund in 2022.[18]

4.3.3 The review panel's analysis

AltaLink's current tariff refund proposal is different than the tariff refund proposal AltaLink seeks to vary and will increase AltaLink's revenue requirement

26. AltaLink's proposal to refund $120 million of accumulated depreciation creates utility rate base. The increase in utility rate base in this instance is not due to AltaLink investing in capital infrastructure as is typical of how utilities grow their business. The increase in utility rate base occurs because AltaLink would return to customers a portion of capital that it had previously recovered from them through depreciation expense.

27. This proposed tariff refund increases AltaLink's utility rate base by $120 million. AltaLink would then earn, at its weighted average cost of capital (which is currently 5.58 per cent), a return on the equity it invests and its debt financing costs on the $120 million amount that is returned to customers. AltaLink's depreciation expense would also increase as a result of refunding $120 million. All of these costs, which are offset by a reduction to AltaLink's income tax payable, are estimated to total $251.6 million and would be recovered by AltaLink from Alberta customers over the next 46 years.

28. AltaLink's proposed refund of $120 million in 2022 is different than the proposal denied by the hearing panel in Proceeding 26509 in two ways.

29. First, as applied for, the proposed refund increases AltaLink's 2022-2023 revenue requirement by $10.1 million, which is $3.4 million more than its earlier proposal. AltaLink's earlier proposal resulted in an increase to AltaLink's revenue requirement of $6.7 million for those same years.[19]

30. Second, to maintain a refund in the amount of $120 million, AltaLink's current proposal has lowered the threshold of what it described was a 5.0 per cent "tolerance [that] provides a cushion against short-term fluctuations in its depreciation expense and small changes in service life estimates"[20] to what it asserted was now sufficient at 2.6 per cent.

31. AltaLink's proposal to refund $120 million in 2022, also bypasses an existing regulatory mechanism called the "amortization of reserve differences true-up." This mechanism refunds to or collects from customers, any surpluses or shortfalls of accumulated depreciation over the

18 Exhibit 27246-X0038, Evidence of P. Bowman, PDF page 7.
19 Exhibit 27246-X0017, AML-AUC-2022APR06-001(a)(b) and which excludes the incremental impact on depreciation expense resulting from the removal of the amortization of reserve differences true-up.
20 Proceeding 26509, Exhibit 26509-X0002.01, PDF page 185, paragraph 571.

average remaining life of a given asset account.[21] This mechanism benefits both customers and utilities, and is intended to have a smoothing effect on utility rates. It is an important regulatory tool and adheres to long standing regulatory concepts such as moderation and gradualism. Instead of refunding $120 million to customers over a period of approximately 46 years,[22] AltaLink's proposed refund would occur in the year 2022.

Long-term modeling illustrates an incremental benefit to AltaLink lasting 46 years

32. The analytical model prepared by AltaLink[23] to reflect the long-term impact of its current proposed refund of $120 million on current and future customers was flawed. It claimed to reflect what AltaLink referred to as "the amortization method currently in place" or "the amortization method approved by the Commission."[24] However, AltaLink's model comparing its revenue requirement with the $120 million refund in 2022 and without that refund, does not accurately reflect the Commission's approved amortization of reserve differences method.

33. AltaLink's currently approved amortization of reserve differences method would refund AltaLink's total reserve difference balance over the average (or probable) remaining life assigned to each of its asset accounts (which AltaLink stated on a weighted average basis for all asset accounts combined was 46 years) in increments of approximately $7 million per year.[25] Accordingly, AltaLink's analysis should have similarly modelled the status quo amortization of reserve differences related to the refund of the $120 million over the average remaining life assigned to each of its asset accounts, or on a combined basis, over the same 46-year weighted average remaining life for all assets; not 17 years.[26] Using the weighted average remaining life of

21 The "surplus" of accumulated depreciation arose primarily due to the recognition that certain assets constructed during the "big build" were built to higher functional specifications that would lead them to have longer service lives. At the direction of the Commission, AltaLink implemented these longer service lives in their depreciation expense calculations. Doing so resulted in both lower depreciation expense and lower revenue requirement. Coincident with recognizing these longer service lives, was the necessity to also recognize that there was a difference between the amount of depreciation that had been collected from customers (at the previous shorter service lives) and what should have been collected from customers (at the now longer service lives). The difference between these two amounts is calculated within a depreciation study as part of a theoretical exercise referred to as a reserve difference calculation. Where there is a difference that is plus or minus 5 per cent of the theoretical amount that should have been collected from customers compared to what has actually been collected, traditionally, an amortization of reserve differences mechanism is triggered to either collect from or refund to customers a true-up amount that will correct the imbalance over the probable or average remaining live of the asset account at issue. AltaLink's current refund proposal is different than the described traditional reserve differences mechanism in that AltaLink would refund any surplus in excess of a 2.6 per cent threshold balance.

22 Exhibit 27246-X0001, Application, Table 1, column (6) and paragraph 19, PDF page 11 indicates AltaLink's probable remaining weighted average asset life for all asset accounts to be 46 years.

23 Exhibit 27246-X0019, AML-AUC-2022APR6-002 Attachment.

24 Exhibit 27246-X0028, AML-AUC-2022APR14-001, PDF pages 2-3.

25 Proceeding 27174, Exhibit 27174-X0006, B-48 Attachment Depreciation Parameters: As shown on Table 1, row 29, AltaLink's use of a depreciation rate of 2.44 per cent does not factor in the refund of the total reserve difference variance of $252 million in increments of $7.1 million per year; whereas a depreciation rate of 2.37 per cent does factor in the refund of the total reserve difference variance of $252 million (Table 2, row 29, column (4)) in increments of $7.1 million per year.

26 Proceeding 26248, Exhibit 26248-X0043, AML-AUC-2021FEB11-002(a)(ii), PDF page 5. The review panel notes that in a comparable analysis prepared by AltaLink to show the impact of a similar tariff refund of surplus accumulated depreciation on its revenue requirement over the long term, AltaLink relied on an amortization period of 50 years to model the refund at issue in that proceeding.

46 years, the $120 million reserve difference would be amortized in increments of approximately $2.6 million per year. AltaLink's flawed model resulted in it amortizing the $120 million over roughly 17 years or in increments averaging $7.5 million dollars per year.[27] [28]

34. At the direction of the review panel, AltaLink provided an alternative model[29] to illustrate the long-term impact of its current proposed refund which amortized the reserve differences related to the refund of the $120 million. The alternative model more accurately reflects the status quo amortization of reserve differences related to the refund of the $120 million over the 46-year weighted average remaining life for all assets. The results of the alternative model showed that the incremental increase to AltaLink's revenue requirement over the 46-year period is estimated to be $251.6 million as a result of AltaLink's proposed $120 million refund. Both near term and future Alberta customers will bear the estimated incremental cost of $251.6 million associated with a refund that only customers in 2022 will receive.

35. In its application, AltaLink did not address aspects of its proposed tariff refund as they related to the time value of money (net present value (NPV) of cash flow analysis and associated discount rate). The NPV calculation for AltaLink's tariff refund shows the current value of the additional future costs customers would be required to pay as a result of receiving the refund. The future costs would be discounted at an interest rate that the customer would be able to earn annually, and be compared to the value of the refund amount provided by AltaLink ($120 million).

36. As noted above, in response to the review panel's information request (IR) asking AltaLink to model and compare the revenue requirement with the $120 million refund of surplus accumulated depreciation in 2022 and without the $120 million refund of surplus accumulated depreciation, AltaLink included an NPV calculation using three scenarios to demonstrate the benefit of their refund proposal. The three scenarios assumed that customers would be able to earn an annual return, or be able to avoid paying their own interest charges on existing debt, at the following rates: seven per cent, 10 per cent, and 20 per cent that AltaLink stated was representative of a credit card interest rate.[30]

37. The review panel notes that each of AltaLink's scenarios provides a situation where a customer would be able to earn a return on the money they get back (or avoid interest on their own debt charges) that exceeded AltaLink's weighted-average cost of capital of 5.58 per cent, therefore, all scenarios mathematically show the refund is a benefit to customers. However, the review panel does not consider it reasonable to assess the proposed refund under the scenarios provided by AltaLink, because there is no persuasive evidence on the record of this proceeding

27 Exhibit 27246-X0019, AML-AUC-2022APR6-002 Attachment.

28 Exhibit 27246-X0019, AML-AUC-2022APR6-002 Attachment. Assumptions tab states:
"● No Refund Scenario: Annual depreciation using overall average depreciation rate of 2.37% per Exhibit 27174-X0010.01, ALP MFR Schedules, Schedule 6-4, cell U502
2.37% is used until the estimate of when the $120M is fully amortized, then 2.44% is used for the remaining period
● $120M Refund scenario: Annual depreciation using overall average depreciation rate per Exhibit 27174-X0010.01, ALP MFR Schedules, Schedule 6-4 (cells M502/I502 = 2.44% - depreciation rate prior to provision for true-up)."

29 Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1.

30 Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1.

demonstrating that all customers, a majority of customers or even a minority of customers pay the interest rates identified and would therefore benefit under the scenarios provided by AltaLink.

38. The review panel finds AltaLink's assumptions in its NPV calculation unreasonable and designed to achieve a result, namely to show a net present benefit to customers resulting from its refund. The review panel has placed little weight on AltaLink's assumption that all Alberta electricity customers are facing debt rates of seven per cent, 10 per cent or 20 per cent and would receive a benefit up to $80 million on an NPV basis,[31] or, would be able to earn a return of seven, 10 or 20 per cent annually.

Short-term modeling illustrates relief in 2022 followed by immediate and long-term increases to rates for a period of 46 years

39. Information provided by AltaLink indicates there is short-term relief in 2022 followed by an immediate increase to customers' rates.

40. AltaLink provided a model which the review panel adjusted to reflect the inclusion of depreciation expense in 2022 and 2023.[32] The model shows, for example, that for a typical ATCO residential customer using 600 kWh per month, the $120 million tariff refund results in a one-time decrease of approximately $14.96 in the third quarter of (Q3) 2022 rates followed by an immediate increase of $0.68 in the fourth quarter of (Q4) 2022 rates and a subsequent increase of $1.09 in 2023 rates. This, and the refund applicable to various other average customers of other utilities, is summarized in Appendix 2.

41. The review panel finds that the modest level of relief provided to customers in Q3 of 2022 does not outweigh the immediate and long-term increases to rates that will commence in Q4 of 2022 and last for 46 years. Accordingly, the review panel does not agree that the $120 million refund provides "significant additional support"[33] as was asserted by AltaLink.

A material decline in Alberta's economic circumstance is not evident

42. AltaLink claimed in its application that the change in economic conditions since the issuance of Decision 26509-D01-2022 (Corrigenda), justifies the need for its proposed refund.

43. In the original Proceeding 26509 (2022-2023 GTA) AltaLink identified, among other things, the following economic circumstances in support of its refund of accumulated depreciation: i) the economic downturn, ii) the effects of the COVID-19 pandemic and the uncertainty it created on Alberta's employment and economy, and iii) low oil prices. In Decision 26509-D01-2022 (Corrigenda), the hearing panel was more persuaded by the evidence of the CCA that acknowledged the COVID-19 pandemic persisted, but highlighted that the

31 Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1.
32 Exhibit 27246-X0032, AML-AUC-2022APR14 Attachment 2, Tab 7 adjusted to reflect $5.9 million increase in 2022 revenue requirement and Tab 8 adjusted to reflect $9.1 million increase in 2023 revenue requirement (as determined in Exhibit 27246-X0029).
33 Exhibit 27246-X0001, Application, PDF page 3, paragraph 2.

economic downturn and low oil prices were less of an issue, noting that the Government of Alberta has indicated that the economy was improving.[34]

44. In this application, AltaLink identified the existence of significant inflationary pressures, related to increases in the price of oil, utilities, food, and other commodities resulting from or coincident with Russia's invasion of Ukraine on February 24, 2022. AltaLink argued that in addition to the existing pressures on Albertans and Alberta businesses that resulted from the COVID-19 pandemic and the accompanying economic damage, the added inflationary pressures substantiate its proposal to refund $120 million of accumulated depreciation as immediate and temporary rate relief that was in the public interest. AltaLink pointed to the Government of Alberta implementing a $150 electricity rebate to homes, farms and businesses, among other measures, as further evidence of the need for customer relief.[35]

45. Other than highlighting examples of inflationary pressures, AltaLink did not provide any economic comparisons as to how Alberta's economic circumstances have worsened from the time its last application update was submitted in Proceeding 26509 or since the time Decision 26509-D01-2022 (Corrigenda) was issued. The review panel sought the following economic indicators, between September 3, 2021 (when AltaLink last updated its GTA), and the most recently available information:[36]

i. Alberta consumer price index (including and excluding Food and Energy)
ii. Alberta real gross domestic product by expenditure
iii. change in employment
iv. Alberta unemployment rate
v. Alberta Average Weekly Earnings
vi. the daily price ($US/bbl) of West Texas Intermediate (WTI) and Western Canada Select (WCS) between September 1, 2021, and April 5, 2022.[37]

46. Based on the information provided by AltaLink, the Alberta consumer price index (inflation) has increased from the time of AltaLink's last application update on September 3, 2021, confirming increased inflationary pressures as detailed in AltaLink's application. However, AltaLink's focus on strictly inflationary pressure is a narrow view of the entire economic picture, and ignores other factors that have improved over the same time, such as increased employment, a decreasing unemployment rate, increase to Alberta average weekly earnings and the increased price of oil. According to the RBC Economics Provincial Outlook,

34 The review panel observes that between the time AltaLink submitted its 2022-2023 GTA on April 30, 2021, and subsequently provided an update to its application on September 3, 2021, AltaLink made no changes to its GTA application to account for impacts related to inflation rates or any other economic indicators.

35 The review panel observes that the Government of Alberta's $150 electricity rebate (a rebate of $50 per month) referred to by AltaLink and P. Bowman was a rebate to account for higher electricity prices to utility customers. The Alberta Government's bill credit does not have to be repaid, and does not incur interest and other carrying charges.

36 Exhibit 27246-X0017, AML-AUC-2022APR06-005, PDF pages 15-27.

37 Exhibit 27246-X0017, AML IR Responses to AUC (1-5), AML-AUC-2022APR06-005.

"Higher commodity prices, on the whole, will be a boon to the Western provincial economies in 2022."[38]

47. In general, with the exception of inflation, the economic indicators showed an improvement in the Alberta economy which is consistent with the position of the Government of Alberta. In this regard, the review panel takes notice of the Alberta Minister of Jobs, Economy and Innovation's April 22, 2022, statement on Alberta's economy:[39] [40]

> "The first three months of 2022 have shown that Alberta's economy is not only recovering, it is growing. Key economic indicators over the first three months of 2022 show that the province continues on a path to growth.
>
> …
>
> Alberta has not just recovered all of the jobs that were lost during the pandemic, but we have gained jobs. Despite a pandemic and energy price crash, Alberta's unemployment rate is the lowest it has been since December 2018 and I am confident that the coming months will see a continued drop in unemployment.
>
> …
>
> The province's economy is expected to fully recover to 2014 levels this year, expanding by 5.4 per cent, and be among the nation's growth leaders. I'm confident that Alberta's future is bright and we're just at the beginning of what will be Alberta's decade."

AltaLink will benefit from the $120 million tariff refund

48. Notwithstanding that AltaLink's $120 million tariff refund proposal provides temporary rate relief to customers in the third quarter of 2022, its proposal also benefits AltaLink's owners.

49. By refunding $120 million of previously collected depreciation expense (held in accumulated depreciation) in the third quarter of 2022, AltaLink will collect an estimated $251.6 million over the next 46 years.[41] The $251.6 million is comprised of incremental changes to the following revenue requirement components:

i. AltaLink's owners will receive an additional $84.9 million in return at 8.5 per cent;[42]

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38 Exhibit 27246-X0024, AML-AUC-2022APR06-005 Attachment 4 (RBC Provincial Outlook March 2022), PDF page 3.

39 April 22, 2022 - Economic update: Minister Schweitzer

40 The review panel observes that subsequent communication from the Alberta government has provided continued confirmation that the economy is recovering and growing:
May 6, 2022 - April Labour Force Survey: Minister Schweitzer | alberta.ca
May 9, 2022 - "Alberta's economy is back on track and poised to lead the country in growth this year." Economic Development Week: Minister Schweitzer | alberta.ca

41 Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1 (60 Year Illustrative Model w amortization of $120m surplus), Summary Comparison worksheet, sum of Depreciation, Return on Equity, Cost of Debt and Current Income taxes for the years 2022 to 2067.

42 Subject to the assumption used in Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1 (60 Year Illustrative Model w amortization of $120m surplus), Assumptions worksheet.

ii. AltaLink's costs will increase by an additional $67.9 million in debt financing interest charges, which are currently at 3.87 per cent and estimated to be 4.00 per cent thereafter;[43]

iii. AltaLink's depreciation expense will increase by $120 million due to forgoing the amortization of reserve differences true-up mechanism in place of the tariff refund; and

iv. AltaLink's revenue requirement would be lower by $21.2 million as a result of lower income tax expense between 2026 and 2067.[44]

4.3.4 Decision

50. For the reasons stated above, the review panel denies AltaLink's request to vary the original decision.

Dated on May 13, 2022.

Alberta Utilities Commission

(original signed by)

Douglas A. Larder, QC
Vice-Chair

(original signed by)

Cairns Price
Commission Member

[43] Subject to the assumption used in Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1 (60 Year Illustrative Model w amortization of $120m surplus), Assumptions worksheet.
[44] Subject to the assumption used in Exhibit 27246-X0029, AML-AUC-2022APR14-001 Attachment 1 (60 Year Illustrative Model w amortization of $120m surplus), Assumptions worksheet.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
AltaLink Management Ltd. (AltaLink or AML) Borden, Ladner Gervais LLP
Alberta Chambers of Commerce (ACC)
Consumers' Coalition of Alberta (CCA)
Energy Associates International (EAI)
Industrial Power Consumers Association of Alberta (IPCAA)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP

Alberta Utilities Commission Commission panel D. Larder, QC, Vice-Chair C. Price, Commission Member Commission staff P. Khan (Commission counsel) R. Watson (Commission counsel) L. Mullen C. Strasser

Appendix 2 – Impact of $120 million tariff refund on average customer rates during Q3 2022, Q4 2022 and 2023

	Rate Class	Typical customer kWh	Q3 2022 refund per month	Q4 2022 increase per month	2023 increase per month		Total Q3 2022 refund	Total Q4 2022 increase	2022 net refund		Total 2023 increase to approved rates
			$'s								
ATCO	Residential D11	600	(4.99)	0.23	0.09		(14.96)	0.68	(14.28)		1.09
	Farm D56	1,255	(10.43)	0.47	0.19		(31.29)	1.42	(29.86)		2.28
	Small General Service D21/D22	7,300	(60.66)	2.76	1.11		(181.98)	8.28	(173.71)		13.28
	Large General Service D31/D32/D33	16,650	(138.36)	6.29	2.52		(415.08)	18.88	(396.19)		30.29
Fortis	Residential Rate 11	640	(5.32)	0.24	0.10		(15.95)	0.73	(15.23)		1.16
	Farm Rate 22	3,000	(24.93)	1.13	0.45		(74.79)	3.40	(71.39)		5.46
	Small General Service Rate 41	2,165	(17.99)	0.82	0.33		(53.97)	2.46	(51.52)		3.94
	General Service Rate 61	63,071	(524.11)	23.84	9.56		(1,572.32)	71.52	(1,500.80)		114.74
	Large General Service Rate 63	1,529,769	(12,712.09)	578.25	231.93		(38,136.27)	1,734.75	(36,401.53)		2,783.11
EPCOR	Residential R	523	(4.35)	0.20	0.08		(13.04)	0.59	(12.45)		0.95
	Small Commercial SC	2,434	(20.23)	0.92	0.37		(60.69)	2.76	(57.93)		4.43
	Medium Commercial MC	19,854	(164.98)	7.50	3.01		(494.94)	22.51	(472.43)		36.12
	Time of Use - Secondary TOU	101,808	(846.00)	38.48	15.43		(2,538.01)	115.45	(2,422.56)		185.22
	Customer Specific - CS	3,179,004	(26,416.92)	1,201.66	481.96		(79,250.75)	3,604.97	(75,645.79)		5,783.55
ENMAX	Residential D100	625	(5.19)	0.24	0.09		(15.58)	0.71	(14.87)		1.14
	Small Commercial D200	2,750	(22.85)	1.04	0.42		(68.56)	3.12	(65.44)		5.00
	Medium Commercial D300	10,250	(85.18)	3.87	1.55		(255.53)	11.62	(243.90)		18.65
	Large Commercial - Secondary D310	270,678	(2,249.28)	102.32	41.04		(6,747.85)	306.95	(6,440.90)		492.44

Source: Extracted from Exhibit 27246-X0032, Tab 7 adjusted to reflect $5.9 million increase in 2022 revenue requirement and Tab 8 adjusted to reflect $9.1 million increase in 2023 revenue requirement (as determined in Exhibit 27246-X0029).