



Determination of the Cost-of-Capital Parameters in 2024 and Beyond – Formula Base Values

October 27, 2023

Alberta Utilities Commission

Decision 27084-D03-2023

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Proceeding 27084

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The Commission may, no later than 60 days from the date of this decision and without notice, correct typographical, spelling and calculation errors and other similar types of errors and post the corrected decision on its website.

1. On October 9, 2023, the Alberta Utilities Commission issued Decision 27084-D02-2023,¹ in which it approved the following formula to determine the return on equity (ROE) for 2024 and future test periods on an annual basis:

$$ROE_t = ROE_{base} + w_1(YLD_t - YLD_{base}) + w_2(SPRD_t - SPRD_{base})$$

where:

ROE_t is the approved ROE for the test year t

ROE_{base} is the “base” ROE, that is the approved notional ROE

w_1, w_2 are adjustment factors for changes in long-term Government of Canada bond yield and utility bond yield spread, respectively

YLD_t and YLD_{base} are long-term Government of Canada bond yields for the test year and base period, respectively

$SPRD_t$ and $SPRD_{base}$ are utility bond yield spreads for the test year and base period, respectively

2. In Decision 27084-D02-2023, the Commission determined the value of each of the base inputs to the formula, except the utility bond spread for the base period ($SPRD_{base}$). The Commission determined that it will use the average utility bond yield spread for the month of February 2023 for $SPRD_{base}$; however, the spread data for the period February 1 to February 28, 2023, was not available on the record.²

3. The Commission directed the ATCO Utilities,³ who sponsored evidence of Dr. Bente Villadsen, to perform the necessary calculations and provide the average utility bond yield spread in February 2023, as a post-disposition filing to this proceeding.⁴ In accordance with the Commission’s direction, the ATCO Utilities filed the calculations and resulting utility bond yield spread value of 1.58 per cent.⁵

4. The Commission has reviewed the calculations and is satisfied that the utility bond yield spread value was determined in compliance with the Commission’s directions. The Commission

¹ Decision 27084-D02-2023: Determination of the Cost-of-Capital Parameters in 2024 and Beyond, Proceeding 27084, October 9, 2023.

² Decision 27084-D02-2023, paragraphs 199-200.

³ ATCO Electric Ltd. and ATCO Gas and Pipelines Ltd.

⁴ Decision 27084-D02-2023, paragraph 200.

⁵ Proceeding 27084, post-disposition documentation: 2023-10-12 ATCO Utilities Response to the Commission’s Direction, and Commission Direction No. 1 – $SPRD_{base}$ – Calculation, filed October 12, 2023.

confirms, on a final basis, the following base values in the formula that will determine the ROE in 2024 and subsequent years until determined otherwise by the Commission:

$$ROE_t = 9.0\% + 0.5 \times (YLD_t - 3.10\%) + 0.5 \times (SPRD_t - 1.58\%)$$

5. As also set out in Decision 27084-D02-2023, the final approved deemed equity ratio is set at 39 per cent for Apex Utilities Inc. and at 37 per cent for all other utilities subject to that decision. These final approved deemed equity ratios are effective January 1, 2024, until determined otherwise by the Commission.

Dated on October 27, 2023.

Alberta Utilities Commission

(original signed by)

Douglas A. Larder, KC
Vice-Chair

(original signed by)

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