



EUB Proceeding

Implementation of the Uniform System of Accounts and
Minimum Filing Requirements for Alberta's Electric
Transmission and Distribution Utilities

March 6, 2007

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2007-017: EUB Proceeding

Implementation of the Uniform System of Accounts and Minimum Filing Requirements for
Alberta's Electric Transmission and Distribution Utilities

Application No. 1468565

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Contents

1	INTRODUCTION AND BACKGROUND.....	1
1.1	EUB Process and Schedule for Proceeding 1468565	1
2	DEFINITION OF THE ISSUES.....	3
3	DISCUSSION OF THE ISSUES AND CONTEXTUAL BACKGROUND	3
3.1	Utilities' Cost for Implementation	3
3.1.1	EPCOR Cost Estimates and Implementation Plan.....	4
3.1.2	ENMAX Cost Estimates and Implementation Plan.....	4
3.1.3	ATCO Electric Cost Estimates and Implementation Plan	5
3.1.4	AltaLink Cost Estimates and Implementation Plan	5
3.1.5	FortisAlberta Cost Estimates and Implementation Plan	8
3.1.6	Summary of Cost Estimates.....	9
3.2	USA-MFR Benefits.....	10
3.2.1	Consistency of Information / Easier Understanding of Applications	11
3.2.2	Comparability of Information Within and Between Utilities	12
3.2.3	Complete and Comprehensive Applications.....	14
3.2.4	Regulatory Efficiencies.....	15
3.3	Cut-over Date.....	16
3.4	Transition Plan for Regulatory Filings.....	17
3.5	Decision Methodology	18
3.6	Affiliates Cost	19
3.7	Applicability to Smaller Utilities	20
3.8	Monitoring of Utilities' USA Implementation Process	21
3.9	Future Review Processes	22
3.10	Other Matters	25
3.10.1	Project Control and Cost Accountability	25
4	SUMMARY OF BOARD FINDINGS AND CONCLUSIONS.....	26
5	ORDER	28
	APPENDIX 1 – HEARING PARTICIPANTS.....	29

List of Tables

Table 1.	EUB Ranked Issues List	3
Table 2.	Utilities' Cost Estimates	9
Table 3.	Board Approved Forecast Revenue Requirement, Rate Base and O&M for 2005 (\$ millions)	10
Table 4.	Actual Revenue Requirement, Rate Base and O&M for 2005 (\$ millions)	10
Table 5.	Earliest Dates Anticipated by Utilities for Filing GTA in USA-MFR Format....	17

**EUB PROCEEDING
IMPLEMENTATION OF THE UNIFORM SYSTEM OF
ACCOUNTS AND MINIMUM FILING REQUIREMENTS
FOR ALBERTA'S ELECTRIC TRANSMISSION AND
DISTRIBUTION UTILITIES**

**Decision 2007-017
Application No. 1468565**

In Bulletin 2006-25 issued on July 12, 2006, the Alberta Energy and Utilities Board (EUB or Board) approved in principle the form and content of consensus Uniform System of Accounts (USA) and Minimum Filing Requirements (MFR) documents (Consensus Documents). The consensus USA and MFR documents were the result of a USA-MFR collaborative process that the Board had established by letter dated December 6, 2004. Concurrent with its approval of the Consensus Documents, the Board also indicated that a public process would be conducted to determine whether it would be in the public interest to proceed with the implementation of the USA and MFR for the regulated electric utility companies in Alberta.

By letter dated August 29, 2006, the Board advised interested parties that it had initiated Proceeding No. 1468565 to address whether implementation of the USA and MFR would be in the public interest.

In this Decision, the Board discusses issues pertaining to the implementation of the USA and MFR and provides the reasons for its decision to direct the regulated electric transmission and distribution utilities in Alberta to proceed with the implementation of the USA and MFR.

1 INTRODUCTION AND BACKGROUND

1.1 EUB Process and Schedule for Proceeding 1468565

On August 29, 2006, the Board issued a letter which outlined the issues to be addressed in the proceeding along with the process schedule to be followed. The process provided for an oral hearing to commence on November 28, 2006.

On November 6, 2006, the Board issued further correspondence to parties to provide direction respecting the scope of the USA-MFR proceeding, and, in particular, to address issues raised by parties respecting the extent to which benchmarking should be made a focus of the proceeding. In this regard, the Board advised that:

In the Board's view, the hearing concerns the USA and MFR. It is not a hearing respecting benchmarking. In the Board's view, investigation of issues should be focused on whether the development of a common 'language' (USA) and presentation (MFR) is of benefit to utilities, customers and the Board and whether USA and MFR will assist in providing a tool that will enable parties to readily understand trends in the costs and descriptions of costs. In the Board's view, benchmarking may be one of many related issues with respect to USA and MFR. Evidence, questions and argument submitted in this

regard may be germane to determining whether the benefits to implementing a USA and MFR are justifiable in relation to the estimated costs of implementation.¹

On November 22, 2006, six days before the scheduled commencement of the oral hearing, AltaLink Management Ltd. (AltaLink) advised that it had "...revised its proposed approach to implementing USA/MFR from a Coding Block² approach to a Special Ledger (SL) Allocation³ approach".⁴ AltaLink included a revised cost and timeline estimate for the proposed SL Allocation approach. AltaLink went on to advise that "...the information responses provided have also been answered in the context of the SL Allocation approach".⁵

The Board responded to AltaLink's revised filing submission on November 24, 2006. The Board determined that if AltaLink's proposed SL Allocation approach to implementing the USA and MFR had been filed on September 29, 2006, the date by which the utilities' cost submissions were due, it may have generated information requests (IRs) different from those that were put to AltaLink in respect of AltaLink's Coding Block approach. As such, AltaLink's responses to the IRs in the context of the SL Allocation approach may not have provided the Board and parties with a complete understanding of AltaLink's SL Allocation approach. Consequently, the Board rescheduled the oral portion of the hearing in order to provide parties with the opportunity to investigate and consider AltaLink's SL Allocation approach. The proceeding was rescheduled to include an interrogatory process related to the AltaLink SL Allocation approach and a new hearing date of December 4, 2006 was set.

In addition, the Board advised that in the event expert witnesses were not required to attend the hearing because no parties wanted to cross-examine them on their evidence, these witnesses could confirm their evidence by affidavit. As a result, the following expert witnesses confirmed their evidence by affidavit:

- Mark Lowry (for FortisAlberta Inc.)
- Johannes Pfeinfenberger (The Brattle Group for AltaLink)
- William Marcus (for AAMDC/AFREA/CCA/PICA)

Oral argument and reply was completed on December 7, 2006. Accordingly, the Board considers that the record of Proceeding 1468565 closed on December 7, 2006.

¹ Exhibit 079, Page 2

² The ERP software (SAP, PeopleSoft) accumulates costs in cost elements / general ledger accounts in order to comply with Generally Accepted Accounting Principles (GAAP) classification of costs and revenues. A second field (cost centre, project, or work order) is used to subdivide accounting detail for those charges related to expense transactions. These two fields are generally defined as the SAP accounting coding block. Coding Block Extension requires modifying the standard SAP software to add an additional field to the accounting coding block to capture the USA activity code.

³ The utility would maintain its existing chart of accounts and associated planning and data collection processes and report to the EUB in the MFR format after allocating costs into USA activities. This involves the development of an allocation methodology to divide the operating expense accounts into their USA account classifications.

⁴ Exhibit 095, Page 1

⁵ Ibid

2 DEFINITION OF THE ISSUES

The Board's final issues list and ranking are contained in the table below.

Table 1. EUB Ranked Issues List

	Issue Identifier	Board Ranking
1	Utilities' Cost for Implementation	High
2	USA-MFR Benefits	High
3	Decision Methodology	Medium
4	Affiliates Cost	Low
5	Cut-over Date	High
6	Transition Plan for Regulatory Filings	High
7	Applicability to Smaller Utilities	Low
8	Monitoring of Utilities' USA Implementation Process	Low
	Issue added as a result of Participants' Feedback	
9	Future Review Processes	Low

This information was conveyed to parties in a letter dated September 22, 2006.

3 DISCUSSION OF THE ISSUES AND CONTEXTUAL BACKGROUND

During the course of the proceeding the Board provided parties with its views with respect to the matters under consideration. Some of these views have been repeated in this Decision to assist in establishing the context of the discussion of the issues that follow.

The Board advised parties that the purpose of this proceeding was not to approve the utilities' cost estimates. The prudence of a utility's implementation costs will be assessed when that utility's USA deferral account is reviewed and reconciled either through its General Tariff Application (GTA) process or as part of a separate process. The type of cost scrutiny to be undertaken at this stage is different than that undertaken to test forecast costs under a GTA.

The Board urged parties to focus their attention on assessing the cost estimates for reasonableness with the aim of incorporating their conclusions into a recommendation as to whether moving to a USA-MFR environment makes sense from an overall public interest perspective.

The Board has addressed the issues listed in Table 1 of the previous section in their order of ranking from high to low.

3.1 Utilities' Cost for Implementation

The Board is interested in understanding the degree of confidence that can be placed on the utilities' cost estimates, the possible variance that could be expected in the implementation costs, and the framework for monitoring implementation costs.

In order to establish a degree of confidence in the estimates, it is necessary to understand whether the proposed functionalities and associated costs are necessary for the implementation of the USA and MFR. The Board considers that the framework for monitoring implementation costs, as those costs are incurred, is also an important factor in assessing the degree of

confidence to be attached to the utilities' implementation cost estimates. The Board will address the cost monitoring framework later in this Decision.

To understand the degree of confidence that it should place on the utilities' cost estimates, the Board examined the cost estimates from the following perspectives: Overall Approach, Project/Work Plan, Feasibility of Solution Proposed, Compliance with the USA and MFR, Budget, and Risk Management. Some general observations resulting from the Board's high-level review are contained in the following sections. While these observations were useful in helping the Board determine the degree of confidence to be attached to the proposed cost estimate, they also will provide guidance to the utilities as they proceed with the implementation of the USA and MFR. The Board expects the implementation cost monitoring process to have regard for these observations.

3.1.1 EPCOR Cost Estimates and Implementation Plan

EPCOR Distribution Inc. (EDI) and EPCOR Transmission Inc. (ETI) use an Oracle financial accounting system that is activity cost based. This has positioned EDI/ETI to readily meet the USA-MFR requirements.

EDI/ETI presented a comprehensive, detailed cost estimate that outlined precisely what steps would be taken, the rationale for these actions and the effort required to implement them. The Board finds the EDI/ETI plan to be reasonable. It allocates adequate time for testing and confirmation and can be completed in a very short time. The budget presented by EDI/ETI is reasonable and economical. Oracle skills (IT) costs of \$100/hour may be on the low side of current market rates, but given the estimated number of 500 hours related to this cost, an increase in the hourly rate will not materially affect the budget. The Board also finds that the minimal training costs and no increase in ongoing maintenance costs projected by EDI/ETI meets the Board's expectations given EDI/ETI's starting position.

3.1.2 ENMAX Cost Estimates and Implementation Plan

ENMAX Power Corporation (EPC) uses PeopleSoft financial applications. The approach proposed by EPC involves the use of a new chart field in PeopleSoft which EPC has determined to be the optimal approach. EPC has provided a risk management plan that identifies most risk factors and mitigation strategies.

EPC's submission should meet the requirements of the USA and MFR as there are no significant technical or operational challenges to prevent the achievement of this objective. Although seemingly expensive, the Board finds this option to be a reasonable way for EPC to achieve USA-MFR compliance.

The cost of implementation proposed by EPC for a modification of their financial system is significantly lower than that proposed by FortisAlberta. However, it is still an expensive proposition. Therefore, budget areas should be closely examined for cost saving opportunities. Such areas could include: Project Set Up (\$250,000), Analysis, Change Management, Training (it is not a new implementation), and Transition. EPC's assumption that resources utilized 25% or greater on the implementation project will be backfilled, is still not clearly understood. It remains unclear exactly how EPC will account for the cost of their time as well as the degree to which jobs have been backfilled. As well, the job descriptions for the full time equivalents (FTEs) for Sustainment, at a projected cost of approximately \$1,000,000 from 2008-2010,

remain unclear. Last, the proposed project schedule appears too long. EPC has forecast close to 3 months of project set-up activities and significant transition time for a system augmentation. While such extended durations are understandable for a new implementation, they may not be necessary for customization.

The Board directs EPC to carefully review the project plan to ensure the managerial effort applied is consistent with the scope of work.

3.1.3 ATCO Electric Cost Estimates and Implementation Plan

ATCO Electric (AE) uses an Oracle financial accounting system that is activity cost based. AE's cost accounting and financial systems are similar to the Federal Energy Regulatory Commission (FERC) Code of Accounts on which the USA was based. In addition, AE's 2005-2006 GTA filing was used as the model for the MFR Consensus Document filed with the Board. Therefore, AE does not require significant process or information system modifications to meet the USA-MFR requirements.

The Board acknowledges that AE's plan will readily meet the USA-MFR requirements. However, AE should take a closer look at its forecast costs. The plan, on its face, provides insufficient detail to support a cost claim of \$400,000 of which \$100,000 is for training costs. The minor changes and verification required by AE can be considered very low risk yet AE's proposed implementation cost estimate is higher than that of EDI/ETI. With nominal system changes, \$100,000 in training costs appears high.

3.1.4 AltaLink Cost Estimates and Implementation Plan

AltaLink operates on an SAP platform.

AltaLink determined that it was feasible to develop allocation methods for those relatively few accounts that required allocation to the USA accounts, which would reasonably approximate the costs that would have been captured by its original coding block extension (CBE) approach. AltaLink noted that 10% or less of its annual revenue requirement, which constitutes some 40% of its operating and maintenance (O&M) costs, would need to be allocated.

AltaLink rejected the suggestion that the allocation of costs to the USA categories in those few instances where AltaLink does not directly capture costs, is inherently inaccurate or negates the objectives of the USA and MFR to have all electric utilities file costs on a consistent basis. AltaLink noted the following:

- Allocation of costs is not unique to AltaLink. The Office of the Utilities Consumer Advocate (UCA) and the Alberta Urban Municipalities Association (AUMA) witness testified that many U.S. utilities that use the FERC-based USA allocate costs in identical categories and in a greater number of accounts than will AltaLink;
- Allocating costs on the basis of properly developed factors which reflect the factors actually driving the costs does not detract from the precision of capturing those costs. The UCA/AUMA, based on a review by its experts, was satisfied that the required level of accuracy will not be sacrificed by the allocation of costs in the manner proposed by AltaLink;
- Supervisory costs need to be allocated in any event; and

- There will be a transparent and collaborative process to develop allocation methods and factors.

AltaLink's SL Allocation approach did not have the broad support of the parties.

The Industrial Power Consumers Association of Alberta (IPCAA) asserted that the kinds of allocations contemplated by AltaLink were not consistent or compliant with the USA and MFR. IPCAA acknowledged that allocations cannot be avoided, but was of the view that they were used mainly for very minor accounts and expenditures. IPCAA disagreed with the UCA/AUMA that FERC filing utilities have a lot of allocations. It was IPCAA's view that one of the fundamentals around the FERC activity based accounting system and the use of work orders and other such instruments, is to eliminate allocations. IPCAA urged the Board not to approve AltaLink's SL Allocation proposal. IPCAA viewed AltaLink's SL Allocation approach as a compromise to the Consensus Documents and submitted that such compromise could eliminate the perceived benefits of comparability, transparency and consistency. This would result in the worst of all worlds, where significant implementation costs would have been incurred and none of the potential indefinable benefits are achieved. IPCAA was supportive of AltaLink's more rigorous CBE approach provided there was proactive scrutiny of the implementation costs. IPCAA appeared to be of the view that although the CBE costs were higher, the potential benefits would be greater than if the SL Allocation approach were adopted.

The AACP (Alberta Association of Municipal Districts and Counties, the Alberta Federation of Rural Electrification Associations Ltd., Consumers Coalition of Alberta, and the Public Institutional Consumers of Alberta) considered AltaLink's SL Allocation approach to be incomplete. Therefore, it was reluctant to accept AltaLink's compromise proposal because of the effect the proposal may have on the overall usefulness of the entire USA-MFR process. The AACP urged the Board to reject the proposal and direct AltaLink to reassess the original and other appropriate alternatives. The AACP had the following specific concerns with AltaLink's SL Allocation approach:

- It is not in compliance with the principles of the USA and MFR and was not an approach that was accepted by the USA-MFR Committee;
- Allocation was rejected by AltaLink (originally), FortisAlberta and EPC as not meeting their selection criteria. These utilities considered that transparency, data integrity and support for variance analysis would be difficult to achieve due to the nature of allocating costs between business units and activities;
- Flexibility for change may be difficult to achieve;
- Allocations do not adequately address the USA General Instruction 9 relating to charging actual time to classes of work;
- It requires the updating of allocation studies; and
- Organizational changes compounded by changes in the USA and MFR would become unwieldy.

EDI/ETI submitted that although minimizing the cost of implementation is a very important objective, the Board should be wary of adopting lower cost approaches that could fall short of meeting the objectives and expected benefits of the USA and MFR. EDI/ETI cautioned that adopting approaches that might rely too heavily on allocations for the sake of mechanically matching the USA-MFR format, could diminish regulatory efficiency by creating the need for

duplicate accounting and by also adding further layers of allocations which have historically been sources of controversy and contention among parties. In addition, too much allocation could result in losing significant clarity and transparency, and ultimately, a significant loss of regulatory efficiency. However, because EDI/ETI did not review the SL Allocation proposal in detail, it could not determine where on the allocation continuum that proposal might lie.

AE was of the view that the common filing format of the USA and MFR should also facilitate the review of filings by both the Board and interveners. However, AE submitted that if approaches that allocate a significant portion of operating expenses are adopted, even those potential benefits would be diminished. AE noted that operating expenses are typically the focus of interest in general tariff applications and asserted that they were likely the primary focus of the USA-MFR initiative.

FortisAlberta indicated that it wanted and would welcome the Board's direction to look at its Alternative 4, which was also an allocation approach. FortisAlberta noted that contrary to IPCAA's assertion that AltaLink's SL Allocation approach was not compliant with the USA and MFR, there was evidence from the UCA on this point. FortisAlberta noted that General Instruction 9 of the USA states that cost tracking is to be done to the extent practicable, which requires the exercise of judgment. FortisAlberta further noted that the Board, as the overseer of the USA, would define what was practicable and what constituted compliance.

The UCA/AUMA indicated that based on the detailed review of its consultants, it was comfortable that the SL Allocation proposal met the requirements of the USA and MFR without loss of transparency and accuracy. They noted that the proposal has far less allocations than the companies that are regulated by the FERC. The only concern of the UCA/AUMA related to the determination of the allocation methodologies and factors. They wanted the Board to direct a collaborative process to establish the allocation methodology and factors to be used.

The Board notes that although AltaLink's SL Allocation approach will cost less than its original CBE approach, it still involves significant costs. Therefore, prudence would suggest that AltaLink should only proceed with its SL Allocation proposal if it can be reasonably demonstrated that the amount of accounts and expenditures to be allocated are such that potential benefits of the USA and MFR will not be diminished or eliminated.

Unfortunately, this determination cannot be made using the current record. Details on the amount and type of accounts to be allocated and, more importantly, an indication of possible allocation methods and factors are missing. As such, the Board considers AltaLink's SL Allocation approach to be incomplete. In the Board's view, the conceptual nature of AltaLink's SL Allocation proposal and its heavy reliance on a future process to determine appropriate allocation methods and factors casts doubt on the wisdom of proceeding with the SL Allocation approach. There is no certainty that the allocation methods and factors, when determined, would be robust enough to withstand the passage of time between GTAs. This could result in the allocation methods and factors becoming sources of contention in future GTAs. Consequently, the potential clarity and regulatory efficiency benefits of the USA and MFR could be in jeopardy, particularly if consensus cannot be reached during the collaborative process.

The Board acknowledges that some amount of allocation is unavoidable. However, the Board firmly believes that when it comes to allocations, less is better. Allocations should only be made when there is no other feasible alternative. For the sake of implementation cost savings,

AltaLink's SL Allocation approach introduces allocations in areas that have traditionally been sources of controversy and contention among parties. The Board is not convinced that the SL Allocation approach will deliver the potential benefits of the USA because it allocates a significant portion of the O&M expenses, which is usually a major focus of AltaLink's GTAs. In the Board's view, the additional O&M allocations increase the probability of ending up with the worst of all worlds that IPCAA alluded to, with the result that adopting the SL Allocation approach could end up costing more in the long run.

In contrast, AltaLink's original CBE approach is more costly to implement, but contains a minimum amount of allocations. This suggests that unless implementation costs were an overriding factor in the determination to proceed with a USA and MFR, the CBE approach would be preferable to the SL Allocation approach.

The Board notes IPCAA supported the CBE approach provided there was proactive scrutiny of the implementation costs. In section 3.8 of this Decision, the Board discusses the need for an independent consultant to monitor and report on the implementation process.

3.1.5 FortisAlberta Cost Estimates and Implementation Plan

FortisAlberta, like AltaLink, operates using an SAP platform. The submission by FortisAlberta proposes the implementation of the Profit Centre Accounting (PCA) module of SAP to meet the USA-MFR requirements. This solution has been identified by FortisAlberta as the most economical of the alternatives that meets the needs and preserves the integrity of the core SAP system. Other alternatives were not explored to any meaningful extent.

The Board accepts that the solution proposed by FortisAlberta will meet the requirements of the USA and MFR.

FortisAlberta indicated that the implementation period of the PCA module will occur from May 2007 to June 2009. Of note is that all project work from May – December 2007 is for the SAP Upgrade. Since the upgrade is being done with the view to adding the PCA module in 2008, there appears to be an inordinately long period for the addition of a module when such extensive system/business analysis has recently been completed for the upgrade.

The proposed budget for the implementation of this solution is very high and the Board has several observations respecting the estimated costs. To begin, the plan contains phases for a Technical Upgrade and System Stabilization at a projected cost of \$3 million. These activities are associated with a business as usual SAP upgrade and though a prerequisite to the addition of the PCA module, the costs of this SAP upgrade should be separated from the estimate for USA-MFR compliance. In addition, under the costs claimed for maintenance of the USA-MFR system, FortisAlberta indicated a need for 10 FTEs at an annual cost of \$1.6 million yet failed to provide job descriptions to support the need for these resources. As well, the Business Blueprint phase of the project appears to be extensive for a system augmentation initiative. The Board notes FortisAlberta's evidence that the plan was developed by IBM and that the details were not available. Further, FortisAlberta did not provide the confidence factor or assumptions on which the plan is based. Given these limitations, the Board considers this plan to be very preliminary and not necessarily an accurate reflection of the effort required to implement the recommended solution. As such, there appears to be numerous areas for potential cost reduction/containment.

FortisAlberta has indicated that the risks associated with this initiative have not yet been properly examined so mitigation strategies could not be developed. For the risks identified in the USA-MFR cost estimates (Availability of Skilled Resources, Implementation Based on New SAP Technology, and Impact on FortisAlberta Business), very little has been presented in the way of mitigation.

Risk is defined as the possibility of suffering harm or loss. The Board views risk as it pertains to the USA-MFR implementation as the possibility of an event, or series of events, jeopardizing the utility's ability to meet the goals of the project. These goals include completing the project during the timeframe that has been established with the resources that have been allocated and with the quality that is expected. The goal of a risk management plan is to determine the method that will be used to monitor risk, the steps that will be taken to mitigate risk, and the process by which risks will be communicated to the project stakeholders. While the filing of a risk management plan is not critical at this stage, the Board would have found it helpful if FortisAlberta had included in its filing some discussion about its proposed approach to risk management. The Board notes that the other utilities did include some risk management discussion in their cost submissions.

3.1.6 Summary of Cost Estimates

The following cost estimates were provided by the utilities for the implementation of the USA and MFR:

Table 2. Utilities' Cost Estimates

Company	Capital Costs	Annual Operating Costs
EDI/ETI	\$0.3 million	\$0.2 million
EPC	\$6.7 million	\$0.5 million ⁶
AE	\$0.4 million	\$0.0 million
AltaLink	\$17.8 million	\$2.8 million
FortisAlberta	\$15.6 million	\$1.6 million
Total	\$40.8 million	\$5.1 million

The cost estimates included for AltaLink are based upon their CBE approach.

The Board has indicated in its findings above that there may be potential cost saving opportunities, namely with regard to the AE, EPC and FortisAlberta proposals. This gives the Board confidence that the combined cost estimates provided by the utilities are if anything, at the higher end of the scale.

The Board has obtained the following information from the 2005 EUB Directive 014⁷ filings submitted by the utilities. The application numbers for these filings are indicated after the utility's name.

⁶ EPC included forecast annual operating costs of \$0.1 million for year one, \$0.4 million for year two and \$0.5 million for subsequent years

⁷ EUB Directive 014: Requirements for Annual Financial and Operating Reporting by Electric Utilities.

Table 3. Board Approved Forecast Revenue Requirement, Rate Base and O&M for 2005 (\$ millions)

Utility	Revenue Requirement	Mid-Year Rate Base	O&M
ETI (#1478150)	\$37.1	\$158.8	\$15.8
EDI (#1478149)	90.7	303.2	55.6
AE-Trans (#1474043)	164.6	786.6	48.0
AE-Dist (#1474043)	239.1	605.0	88.8
EPC (#1459029)	162.8	488.8	41.6
AltaLink (#1458975)	181.5	758.7	62.6
Fortis (#1458815)	215.4	675.5	115.4
Total	\$1,091.2	\$3,776.6	\$427.8

Table 4. Actual Revenue Requirement, Rate Base and O&M for 2005 (\$ millions)

Utility	Revenue Requirement	Mid-Year Rate Base	O&M
ETI (#1478150)	\$32.8	\$158.0	\$16.1
EDI (#1478149)	91.2	308.7	57.2
AE-Trans (#1474043)	166.8	771.5	50.0
AE-Dist (#1474043)	245.1	608.3	93.9
EPC (#1459029)	161.7	492.1	45.2
AltaLink (#1458975)	176.3	741.1	58.1
Fortis (#1458815)	213.4	682.0	113.2
Total	\$1,087.3	\$3,761.7	\$433.7

The total capital cost estimate in Table 2 of \$40.8 million is approximately 1% of the total 2005 actual mid-year rate base for these utilities. As such, the annual revenue requirement associated with the \$40.8 million would not be material when compared to the total approved 2005 revenue requirement for these utilities. In addition, the total annual operating costs estimate of \$5.1 million shown in Table 2 is approximately 1% of the total 2005 actual operating and maintenance costs for these utilities. The Board believes that, even though the cost estimates provided in Table 2 are significant, the amounts are not material when viewed in the context of the total overall costs and investment involved for these utilities.

In light of the foregoing, and given the broad support for implementation of the USA and MFR, the Board believes that the utilities' implementation cost estimates filed in this proceeding represent a reasonable basis on which to proceed with the implementation of the USA and MFR.

3.2 USA-MFR Benefits

In announcing its approval in principle of the form and content of the Consensus Documents the Board stated the following:

The EUB believes that the adoption and use of an activity-based USA similar to that used by the United States Federal Energy Regulatory Commission will improve the ability to compare financial information from year to year for a utility and, to the extent possible, across utilities when testing the reasonableness of a utility's filings and budgets. The EUB and interveners will have greater confidence that the costs being considered are comparable. This increased confidence, combined with MFRs based on information from the USA, should result in more complete and comprehensive General Tariff Applications (GTAs), a more efficient interrogatory process, and reduced cross-examination time at hearings.⁸

⁸ EUB Bulletin 2006-25, dated July 12, 2006

As part of this proceeding, parties were requested to file submissions to address what benefits, if any, they considered would arise from the implementation of a USA and MFR. All parties, with the exception of AE, provided written submissions on expected benefits from the implementation of a USA and MFR. The benefits outlined in the submissions were mainly the same as those identified by the Board in the above quote from Bulletin 2006-25. There were also some additional benefits included such as:

- confidence that a USA framework would work well within the context of alternative rate making, such as formula based rate design;⁹
- general consistency of utility information which would provide for an easier understanding of applications and additional transparency into the material provided;¹⁰
- promotion, facilitation and more meaningful use of ratios and benchmarks;¹¹
- comparisons to provide greater opportunity for settlements;¹² and
- standardization to assist the Board in its audit function by providing auditors with a uniform starting point for all utilities.¹³

The proposed benefits that received the most discussion and commentary from parties were:

- consistency of information which provides for easier understanding of applications;
- comparability of information over time both within a utility and between utilities;
- more complete and comprehensive applications; and
- regulatory efficiencies.

The Board's views and observations of these matters follow.

3.2.1 Consistency of Information / Easier Understanding of Applications

All of the utilities considered consistency of information as a benefit of the USA and MFR. FortisAlberta identified it as the main benefit.¹⁴ AltaLink viewed consistency as a primary benefit.¹⁵ EDI/ETI acknowledged that the standardization of accounts under the USA will likely make it simpler for the Board and interveners to understand a utility's costs.¹⁶ AE acknowledged that the ability to consistently evaluate the performance of a specific utility over time may be a potential benefit; however, it cautioned the Board that this benefit alone may not justify the implementation of the USA and MFR.¹⁷

The AACP expert submitted that continual changing of cost accounting makes it difficult or impossible for regulators and interveners to analyze utility operations on a consistent basis on both a forecast and actual basis.¹⁸ He submitted that addressing this inconsistency does not necessarily require the implementation of the USA and MFR. He was of the view that this issue

⁹ Exhibit 045 – ENMAX Letter to the Board re USA-MFR Benefits, dated October 13, 2006

¹⁰ Exhibit 047 – AltaLink Benefits Submission, dated October 13, 2006

¹¹ Exhibit 052 – IPCAA Benefits Submission, dated October 16, 2006

¹² Ibid

¹³ Exhibit 046-01 – UCA Benefits Submission, dated October 13, 2006, Page 1, Lines 20-21

¹⁴ Transcript, Volume 3, Page 494, Line 24

¹⁵ Transcript, Volume 4, Page 767, Lines 1-5

¹⁶ Exhibit 048-01 – EDI/ETI Benefits Submission, Page 1, Lines 26-27

¹⁷ Transcript, Volume 4, Page 717, Lines 22-25, Page 718, Lines 1-12

¹⁸ Exhibit 051 – AFREA/AAMDC/CCA/PICA Evidence of William B. Marcus, dated October 13, 2006, Page 2

could also be addressed if the Board simply ordered the utilities to use the accounting format that they have been previously using and to not make any changes without the approval of the Board.¹⁹

The Board agrees with parties that consistency of information is an important benefit of the implementation of the USA and MFR. The continual changing of cost accounting policies by utilities makes it extremely difficult to analyze a utility's operations from year to year. As well, the continual change in how utilities report their operations in regulatory applications also makes analysis and understanding quite difficult. The Board sees value in ensuring that utilities are accounting for and reporting items on a consistent basis year over year. Consistent reporting eliminates the situation where utilities have forecasted and reported items on one basis and, for internal reasons, have actually recorded and reported them on a different basis. These types of situations have, in the past, required utilities to restate either the forecasted amounts or the actual amounts so that the Board and interveners are able to understand the impact of the change and to assess the forecasting accuracy of the utility. This practice not only involves additional time for the Board and interveners, but the utility staff as well. The elimination of these restatements will obviously aid in regulatory efficiency.

The Board recognizes that a USA and MFR are not absolutely necessary to achieve consistent reporting over time for a single utility. However, the Board view must extend beyond that of a single utility to all of the utilities that it regulates. The Board considers that more benefits could be derived if all utilities were required to use the same accounting treatment and the same reporting treatment for regulatory applications. The Board believes that there are efficiencies to be gained by having each utility record and report information on the same basis. In this way, the Board and interveners would not have to spend time, as is currently done, basically refreshing themselves on the different approaches each utility takes to record and report regulatory information in their applications. The Board considers that regulatory efficiencies would be gained when an application are filed using the USA and MFR because all parties would know exactly where to look for any information it wished to examine. In addition, all parties would understand what types of costs are included in the accounts being reported upon. Parties would no longer have to wonder, for example, how a particular utility defines, records and reports information on full time equivalents and labour costs. The Board believes that this consistency across all utilities will lead to more regulatory efficiencies than simply allowing each separate utility to continue recording and reporting on a different basis, albeit with the requirement that each individual utility be required to consistently apply their unique recording and reporting. The Board considers that this consistency across all utilities will only be achieved through the implementation of the USA and MFR.

3.2.2 Comparability of Information Within and Between Utilities

This benefit is closely linked to the consistency benefit discussed above. The basis for the comparison of information within a utility as well as between utilities lies in the consistency of the information being recorded and reported upon. The Board believes that it is much easier to compare information when it has been recorded and reported on a consistent basis. This eliminates the need for any restatements as discussed in Section 3.2.1 above. For this reason alone, the benefit of consistency lends itself immediately to the benefit of comparability.

¹⁹ Exhibit 051 – AFREA/AAMDC/CCA/PICA Evidence of William B. Marcus, dated October 13, 2006, Page 3

None of the parties in this proceeding argued that the USA and MFR would result in less comparability of information. However, a majority of the utilities stated that comparisons between utilities, or benchmarking for rate making purposes, were not a benefit of the USA and MFR. EDI/ETI stated that while high level comparisons for diagnostic purposes can be helpful, detailed benchmarking efforts for rate-making purposes will result in substantial additional costs and diminished regulatory efficiency while yielding no meaningful benefit.²⁰ AE strongly opposed the use of information filed in accordance with the USA and MFR for this purpose.²¹ AltaLink submitted that the adoption of the USA and MFR will not provide a reasonable basis for the use of benchmarking or cross-utility comparisons for purposes of rate setting or for determining the reasonableness of rates filed by utilities under the Board's jurisdiction.²² FortisAlberta believed that the implementation of the USA and MFR would not enable parties to make simple comparisons and draw conclusions that would be beneficial in determining revenue requirements as compared to the manner in which current filings are done.²³

The Board considers that no party to this proceeding has made the specific recommendation that benchmarking be used to determine revenue requirements or rates. The AACCP's evidence clearly indicated that benchmarking amongst Alberta utilities should not be generally used to determine rates.²⁴

The Board sees no requirement to use benchmarking between utilities to determine revenue requirements or rates. The Board recognizes that any possible future efforts in this regard will involve substantial challenges. IPCAA also recognized the difficulties associated with benchmarking when it acknowledged that benchmarking is something that one has to consider carefully because there are problems and challenges with benchmarking different utilities.²⁵

However, the Board does consider there are benefits in the ability to compare the operations of the different utilities in the Province. The Board notes that the majority of the utilities have voluntarily participated in organizations that collect operating statistics and issue summarized results to all participants. The Board considers that the utilities derive some benefit from this participation, even if it was only to obtain some meaningful indices on which to measure performance. The Board believes that the standardization and consistency of recording and reporting information will allow parties to develop and calculate certain metrics and performance measures that can be used for comparison purposes. This will afford all parties the opportunity to identify any major areas of concern between the utilities. The Board realizes that there probably are valid reasons that could explain the differences in performance measures between the utilities and the Board sees value in exploring and understanding these reasons. The Board believes that this would benefit not only customers and the Board, but utility management as well. For example, the requirement to record and report O&M performed by contractors separately from O&M performed by FTEs could be used to assess the cost effectiveness of these two work execution methods.

The Board believes that current attempts to meaningfully compare any cost items between utilities usually start out with the parties determining what types of costs are included and then

²⁰ Transcript, Volume 4, Page 695, Lines 7-15

²¹ Transcript, Volume 4, Page 723, Lines 10-19

²² Transcript, Volume 4, Page 769, Line 25, Page 770, Lines 1-6

²³ Exhibit 100, Response to BR-FAI-018 (a)

²⁴ Transcript, Volume 4, Page 858, Lines 14-18

²⁵ Transcript, Volume 4, Page 807, Lines 9-10

making adjustments to make sure that the comparison is made on an apples to apples basis. This process results in inefficiencies that could be alleviated through making comparisons between items that are recorded and reported on the same basis. The adoption of the USA and MFR would accomplish this.

3.2.3 Complete and Comprehensive Applications

The Board is aware that content differences currently exist between the GTAs filed by the various utilities. As part of the revisions to EUB Bulletin 2005-31,²⁶ the Board introduced a step entitled: Pre-notice Application Assessments by EUB Staff. This step was put in place to ensure that applications filed with the Board met the EUB's regulatory requirements. The UCA stated that the USA and MFR will reduce the need for these pre-application assessments.²⁷ The Board agrees with the UCA and considers that the implementation of the USA and MFR could virtually eliminate this procedural step and therefore lead to increased regulatory efficiency.

AE was also of the view that the implementation of the USA and MFR would raise the standard of all utility filings in the Province and be a consistent standard for all the filings in the Province.²⁸

The question of how much or what type of information to include in a regulatory application has been a long standing issue for utilities. There has also been a concern expressed by the interveners over the years regarding information asymmetry. The Board considers that regardless of the type of reporting format in place, there will always be information asymmetry as there is simply no way for the utilities to report every single piece of data it has compiled over a financial year. However, the Board recognizes that through the efforts of the USA-MFR Committee, the parties have agreed that there is at least a minimum amount of data that should be included in a regulatory application. This will provide guidance to the utilities in preparation of their regulatory applications. The Board believes that this will result in reduced information requests regarding the information asymmetry topic. The adoption of the USA and MFR will mean that interveners will know what to expect when they receive a regulatory application.

While the Consensus Documents were the result of a collaborative process, it is similar in nature to negotiated settlements that are filed with the Board. As such, there is an onus on both the utilities and the interveners to live up to the agreement on the USA and MFR. AE submitted that:

While in our view the minimum filing requirements should in most circumstances provide sufficient information to justify requests contained within a GTA, ATCO Electric acknowledges that in certain circumstances additional information would be required in order to fully justify a specific aspect of the requested revenue requirement.²⁹

The Board agrees with AE that even with the establishment of the USA and MFR, the onus is still on the applicant utility to justify its forecast costs. The Board expects utilities to exercise professional judgment in deciding if additional information is required above the USA and MFR requirements. Likewise, the Board also expects interveners to respect the spirit and intent of the

²⁶ Bulletin 2005-31, Revisions to EUB Cost Policies and Prehearing Processes for Utility Matters, dated October 28, 2005

²⁷ Exhibit 046-01 – UCA Benefits Submission, dated October 13, 2006, Page 11, Lines 24-25

²⁸ Transcript, Volume 2, Page 228, Lines 19-23

²⁹ Transcript, Volume 4, Page 720, Lines 16-23

USA and MFR when preparing information requests to test a utility's application. In this regard, the Board expects that questions will be well justified.

The Board believes that one of the keys to increased regulatory efficiency is high standard, quality applications by the utilities. The Board considers that the USA and MFR will lead to this result on a consistent basis.

3.2.4 Regulatory Efficiencies

The majority of the parties in the proceeding anticipated that the implementation of a USA and MFR would lead to regulatory efficiencies.

EDI/ETI stated that, among other things, the USA and MFR should obviate the need for interveners to pose information requests and questions in cross examination for the mere purpose of understanding, for example, the types of activities that are included in a certain account.³⁰ One benefit that FortisAlberta foresaw arising from adoption of the USA and MFR was a material reduction in costs of regulatory proceedings, and in particular GTAs.³¹ The UCA considered that the USA and MFR would allow interveners to focus information requests on the "why" questions, and not on "what is this" questions.³²

On the other hand, AE remained skeptical of the benefits being claimed by some proponents of the USA and MFR. AE stated that, given its applications were used as the model for the Consensus Documents, some of the anticipated benefits such as shortened hearing time and reduced number of IRs should have been evident in its recent GTA proceedings. AE stated that this has not been the case.³³

In addition to simply identifying regulatory efficiencies, some parties also emphasized the importance of achieving these regulatory efficiencies. For example, AltaLink considered that it was critically important that the efficiencies be achieved if the costs of implementing the USA and MFR were to be justified.³⁴

The Board shares the desire of parties to increase regulatory efficiency through the implementation of the USA and MFR. However, the Board does not expect these efficiencies to be immediately apparent. Therefore, the Board expects that in the short term the implementation of the USA and MFR may result in increased regulatory costs as all parties adjust to the new filing requirements. The Board notes that the AACP shares this view.³⁵

While there will be some adjustment period, the Board does not anticipate the learning curve will be too steep since the composition of the USA-MFR Committee exposed both utilities and interveners to the requirements of the USA and MFR. In addition, as AE's recent GTA filings have been based on the Consensus Documents, some interveners will have had some experience with this format.

³⁰ Exhibit 048-01 – EDI/ETI Benefits Submission, Page 1, Lines 28-30

³¹ Exhibit 050 – Fortis Potential Benefits Letter, dated October 13, 2006, Page 1

³² Exhibit 046-01 – UCA Benefits Submission, dated October 13, 2006, Page 16, Lines 4-5

³³ Exhibit 088 – Response to BR-AE-3 (a)

³⁴ Transcript, Volume 4, Page 768, Lines 1-4

³⁵ Transcript, Volume 4, Page 861, Lines 19-21

With respect to the regulatory efficiency associated with reduced hearing times, information requests or other procedures, the Board cannot and will not guarantee that this will occur in every application put before it using the USA-MFR format. The Board expects that, if the level of intervention is maintained at current levels or increases in the future, the interveners will be able to justify their reasons for examining any particular area of an application in greater detail. The Board will continue to monitor the effectiveness of interventions as it currently does and expects that this role may become even more important in the early years of the USA and MFR.

Overall, the Board finds that having a standardized, consistent format will, over time, lead to a better understanding of the applications filed with the Board. The elimination of “what is in here” types of questions posed during the information request and cross-examination stage will certainly aid in improving not only the efficiency of interventions, but also their effectiveness as well.

3.3 Cut-over Date

Parties presented various opinions respecting the establishment of a date beyond which all utilities must be in compliance with the USA and MFR.

AltaLink suggested that although in principle it made sense for the implementation or transition to start on a set date, it intended to file its next GTA in the MFR format. AltaLink expected to be in a position to implement the USA and MFR with the filing of its next GTA covering the test period commencing in 2009 provided the USA and MFR proceeded and its proposed SL Allocation approach was approved.

EDI/ETI preferred a fixed go-live date. Notwithstanding this preference, EDI/ETI intended to file its next GTA application in either complete or very nearly complete compliance with the USA and MFR in the second quarter of 2007. EDI/ETI also recommended that utilities implement the USA and MFR as soon as possible as doing so would enhance all parties' understanding of the new format during the transition process.

AE argued that in principle, all utilities should convert at the same time. However, AE also stated that for all intents and purposes, it was currently complying with the USA and MFR.

FortisAlberta recommended implementation for a utility as soon as possible. For itself, FortisAlberta proposed a USA-MFR transition date of January 1, 2009 as it required a fiscal year of data collection under an operating USA before it could prepare a forward looking MFR-based GTA filing.

EPC developed an implementation schedule whereby it would be able to prepare its 2009 budget under the USA reporting requirements, track actual results against this budget through 2009, and then be in a position to submit a GTA in the MFR format by 2010. EPC also indicated that it would be filing its next GTA in 2007 which may be for a period up to five years. Assuming that this filing will not be USA-MFR compliant, if a 5 year filing were made in 2007, EPC would not be filing a USA-MFR compliant GTA until the 2012 test year.

In summary, the Board notes that the submissions of the parties can be separated into two camps. The first camp, which includes parties such as FortisAlberta, the UCA/AUMA and IPCAA, suggest that utilities should proceed with the USA and MFR when ready as there will be a

learning curve for utilities, Board and interveners. The second camp, which includes AE, EDI/ETI and AltaLink, indicated a preference for a fixed implementation date applicable to all utilities. The Board notes that notwithstanding AE, EDI/ETI and AltaLink's stated preference, they have targeted compliance with the USA and MFR coincident with their next GTA filings.

All utilities indicated that they could comply with the USA and MFR by 2010. The anticipated years are shown in Table 5 below. The actual dates and test periods for which GTAs will be filed are not known to the Board at this time.

Table 5. Earliest Dates Anticipated by Utilities for Filing GTA in USA-MFR Format

	Year that Historical USA Data is available	Earliest Date GTA could be filed in USA-MFR format with one year historical data
ATCO	Currently	Currently
EPCOR	2006	2007
AltaLink	2008 ³⁶	2009
FORTIS	2009	2010
ENMAX	2009	2010-2012

Given these timelines, the Board considers that 2010 represents a reasonable and achievable date by which each utility can file its GTA in accordance with the USA and MFR. Accordingly, the Board directs AE, EDI/ETI, AltaLink, FortisAlberta and EPC to file their GTAs in accordance with the USA and MFR no later than 2010. Utilities that are currently in a position to comply with the USA and MFR should do so immediately. Utilities that are very close to compliance with the USA and MFR should proceed to become fully compliant as soon as possible. Other utilities who have much to do to achieve compliance, should nonetheless endeavour to meet the spirit and intent of the USA and MFR to the extent possible during the period of time it takes for them to become compliant, but in any event, no later than 2010.

3.4 Transition Plan for Regulatory Filings

In a letter to the EUB dated May 8, 2006,³⁷ the USA-MFR Committee outlined further process items it considered would be necessary before the Board could decide whether to implement the USA and MFR. A section entitled "Transition to a USA and MFR Regulatory Regime" of that letter read as follows:

If the Board ultimately decides to direct the utilities to implement the proposed USA and MFR, a plan to transition smoothly to the new USA and MFR regime would need to be established. A transition plan would assist in ensuring that there is a good measure of comparability between a utility's last GTA filed under the current system and its first GTA under the new USA-MFR regime. The Committee considers that the EUB can develop this plan in consultation with the utilities and interveners once the decision is made to proceed with implementation of the USA and MFR.

The Board considers the approach proposed by the USA-MFR Committee to deal with transitioning to a USA-MFR regime to be reasonable.

³⁶ The Board anticipates that as part of AltaLink's 2009 filing, 2008 historical data on a comparable basis will be provided.

³⁷ Exhibit 001, EUB Endorsed USA & MFR, Cover Letter Dated May 8, 2006, Page 2

Now that the Board has decided to order the electric transmission and distribution utilities to proceed with the implementation of the USA and MFR, the Board provides the following comments to assist in the development of a transition plan (Transition Plan).

An important tool that interveners and the Board use in assessing a utility's application is the comparison of actual results to forecasts. In order to permit this comparison, it is imperative that the forecast and actual figures be recorded and reported on a similar basis. If utilities find themselves in the situation where the forecasts and actuals are prepared on a different basis, work will have to be done by the utilities to restate either the forecast or the actuals in order to provide for meaningful comparisons. The Board considers this activity to be part of the short term increase in regulatory costs that were discussed in Section 3.2.4 above. The Board expects the utilities to restate any such years that are affected by this change. The Board also expects that the restatement will be on an account by account basis. This will provide the interveners and the Board with the information they require to assess the forecasting accuracy of each group of costs. In other words, the proposal brought forward by EPC regarding restatements is not acceptable to the Board. This proposal was outlined by EPC as follows:

Our position would be to the extent that the bottom line number for the application for the revenue requirement was within a reasonable change, there would be no reconciliations performed.³⁸

The Board also expects that in the case of any longer term alternate rate making scenarios, the utilities would have to ensure that any information used for such things as formula calculations would have to be recorded and reported on a consistent basis, even if the actuals and forecast were prepared on a different basis.

The Board considers that one option for developing a Transition Plan would be to re-constitute the USA-MFR Committee, or a similar type of committee, and charge that committee with the task of developing a plan for all utilities to follow in transitioning from their current system of recording and reporting to the USA-MFR system. However, the Board recognizes that there may be other options for achieving the same result. Therefore, following the issuance of this Decision, the Board will issue a letter (USA Process Letter) canvassing the views of parties on the appropriate process for developing the Transition Plan.

3.5 Decision Methodology

As discussed in the preceding sections, although there were differences of opinion as to the specific details of the USA and MFR and the timing of implementation, parties were either neutral or supportive of the implementation of the USA and MFR. Given this support, the Board's review was concentrated on implementation details such as cost estimates, cutover dates, transition plans, affiliate costs and project monitoring.

Having identified the various benefits that could be achieved through the implementation of the USA and MFR, the Board must now consider whether these benefits are sufficient to support the imposition of the USA and MFR given the projected implementation costs identified by the utilities.

³⁸ Transcript, Volume 2, Page 251, Lines 5-9

During the IR portion of this proceeding, the Board requested the views of all parties as to whether it was possible to quantify the potential benefits of the USA and MFR and to do some type of quantitative analysis to determine if it should proceed with the USA and MFR. All parties responded to this question by stating that such a quantitative analysis was not possible.

The Board also attempted to assess the potential dollar value of reduced intervention time by asking the interveners and the utilities to quantify the time, effort and resources dedicated to responding to and understanding the content of an application. The parties were unable to provide any meaningful response as they did not track the amount of time they spent pursuing this issue.

The Board has concluded that it cannot perform the usual quantitative analysis to compare the dollar costs of the implementation of the USA and MFR with the expected dollar savings associated with the benefits of having such a system. Therefore, the assessment must be done on a more qualitative basis.

The Board is persuaded by the evidence that there are benefits to be gained through the implementation of the USA and MFR. Moreover, the Board is reassured that the interveners also consider there to be benefits to be achieved from the implementation of the USA and MFR as they would not otherwise have been willing to participate in the USA-MFR Committee or support this initiative in this proceeding. The Board also notes that although the implementation costs at this stage are uncertain, customer representatives are willing to pay the costs provided the implementation is done on a prudent basis.

The Board notes the following question and response with IPCAA:

Q: No. I think it does. I mean, I think you're saying, do this exercise right. IPCAA appreciates there's going to be, I'll call it, hefty price tag attached. And assuming there's the proper scrutiny on those costs, you are putting your money where your mouth is. You think the benefits are there.

A: That's right.³⁹

The Board also has given some weight to the fact that the use of a USA and MFR by the FERC, has been in place for many years. The Board believes that since this system is continuing to be used it must still be considered to be an effective recording and reporting mechanism. This gives the Board confidence that the USA and MFR will also provide benefits to regulated electric transmission and distribution utilities in Alberta. The Board believes that on an overall qualitative basis, these benefits are sufficient to justify the costs associated with the implementation of the USA and MFR.

3.6 Affiliates Cost

Affiliates costs associated with the implementation of the USA and MFR do not appear to be a significant issue. Affiliate costs can arise in a regulated utility when its financial and reporting systems are integrated with its unregulated affiliates.

³⁹ Transcript, Volume 4, Page 849, Lines 6-13

All of the utilities indicated that their proposed approach to implementing the USA and MFR would not have any impact on their affiliates. Therefore, their cost estimates did not contain any affiliate costs associated with the adoption of the USA and MFR.

EDI/ETI noted that should the Board direct EDI/ETI to embed the actual FERC account numbers in their Oracle chart fields, there would be a huge associated cost for EPCOR Utilities Inc. In this event, the entire cost associated with the change would be recoverable by EDI and ETI through their regulated tariffs because the regulated business would be the sole driver of the need for the change. The Board has noted EDI/ETI's concern, but will not be providing any findings on this matter at this time as it is outside the scope of this proceeding. If an affiliate cost issue does arise in the future it will be addressed at each utility's GTA following the implementation of the USA and MFR.

Therefore, as no utility has included in its cost estimates any affiliate costs associated with the adoption of the USA and MFR, this matter has not impacted the Board's determination in this proceeding to approve the implementation of the USA and MFR.

3.7 Applicability to Smaller Utilities

The USA and MFR approved in principle by the Board in Bulletin 2006-25 provides as follows:

Applicability of Uniform System of Accounts: Subject to any Board accounting requirements under the EUB Act, the EUA, the PUB Act, the HEEA, and as noted in General Instruction 1, this system of accounts is applicable in principle to all licensees engaged in the transmission (including any associated isolated generation) or distribution of electric energy, unless exempted by the AEUB,

This provision allows the smaller utilities such as the Cities of Lethbridge and Red Deer, and TransAlta to seek exemption and persuade the Board that some other type of requirement better suited to their circumstances should apply. It recognizes that an administrative burden could be imposed on the smaller utilities if they are required to conform to the USA and MFR that is developed for the larger utilities.

Parties were either neutral or supportive of the above-noted USA provision that would allow for a more practical and pragmatic USA-MFR approach for smaller utilities. However, the AACP submitted that, should an exemption be granted, the Board should approve the accounting format used by the exempted utilities and require that no changes to their approved format be made without approval of the Board. The AACP recommended that, if changes are approved, prior period data should be restated for five years for regulatory purposes.

The Board considers that the approach adopted by the USA-MFR Committee reasonably provides for the smaller utilities to be exempted from the USA if their particular circumstances warrant a more practical and pragmatic treatment. Applications for exemptions should be filed well in advance of the required USA-MFR implementation date to ensure that smaller utilities can be in a position to comply with the prescribed USA-MFR implementation date of 2010, if an exemption is not granted.

If the Board decides to grant an exemption application, it will determine at that time what conditions, if any, should be attached to its approval.

3.8 Monitoring of Utilities' USA Implementation Process

It was proposed by the USA-MFR Committee that the implementation projects for USA-MFR compliance be monitored by a neutral third party (Independent Monitoring Contractor). The USA-MFR Committee's May 8, 2006 recommendation to the Board stated:

The Committee recognizes that if implementation proceeds, the final cost for implementing the USA will be subject to review and determination through the GTA process. However, the Committee felt that the overall public interest would be better served if a more proactive approach to scrutinizing the USA implementation costs were established. In this regard, the Committee considers that the on-going review by a neutral third party (Contractor) knowledgeable in IT and accounting process matters would assist in ensuring that only prudent systems and infrastructure are built. The Contractor would be retained by the EUB, but the associated cost would be recovered through utility rates.

A majority of the parties were supportive of the USA-MFR Committee's recommendation. While it did not directly oppose the idea of an Independent Monitoring Contractor, AltaLink questioned the value of an external review or audit of the USA-MFR project capital costs or implementation process. AltaLink stated that the Board's review of utility costs through the GTA process or the Board audit process, if deemed necessary, should cost effectively test the reasonableness of the implementation costs.

The AACP stated that the detailed role of the Independent Monitoring Contractor position, including such matters as the skill set required and the level of responsibility and authority for this position, has not been fully explored in this proceeding and needs to be defined. Nonetheless, the AACP was of the view that the active monitoring of the utilities' implementation process and costs by a qualified independent third party should facilitate a more meaningful review of the utilities' costs in a GTA or deferral account process. The acceptance of this process by the AACP was conditional on customer participation in the terms of reference and in the selection of the Independent Monitoring Contractor. The AACP submitted that the Independent Monitoring Contractor should provide to the Board and customers progress reports, perhaps quarterly, including recommendations on the prudence of the actions and costs of the utilities' implementation to date. Last, the Board should advise the utilities that costs will not be approved if the review process finds the processes or costs have not been conducted in a prudent manner.

IPCAA considered that it would be a challenge to find the right Independent Monitoring Contractor because the skills and experience needed would require a mix of IT and financial, some engineering, and significant regulatory knowledge. However, IPCAA was of the view that, if the right person could be found, significant hearing time would be saved during the GTAs where the utilities will seek to recover their USA-MFR implementation costs.⁴⁰

The Board agrees with the concept of an Independent Monitoring Contractor and believes that such a position would bring discipline and focus to the USA-MFR implementation process. It will also serve to greatly reduce the challenges involved in the future prudence review of the USA-MFR implementation costs to determine the amount that should be paid for by customers. Therefore, the Board will retain an Independent Monitoring Contractor to perform this monitoring and reporting function during the implementation process. The USA Committee had suggested that the Independent Monitoring Contractor would be retained by the EUB, but the

⁴⁰ Transcript, Volume 4, Page 842, starting at line 18

associated cost would be recovered through utility rates. The Board considers this to be a reasonable framework for the retention and compensation of the Independent Monitoring Contractor.

The Board acknowledges that the selection of the Independent Monitoring Contractor and that person's roles, responsibilities and function will require much thought and consideration. Therefore, the Board will also seek parties' views on these matters in its USA Process Letter.

However, the Board provides below its preliminary thoughts on the role of the Independent Monitoring Contractor to assist parties in responding to the USA Process Letter.

The Board considers that the primary function of this role is to ensure the public interest is being served by the utilities' USA-MFR implementation approaches, that the projects are being executed effectively, that the projects stay within budget, and that the scope of the project is solely for the purpose of USA-MFR compliance. The Board is of the view that the roles and responsibilities of the Independent Monitoring Contractor should include:

- The Independent Monitoring Contractor is an independent consultant who reports quarterly to a Committee comprised of representatives from the utilities, interveners and the EUB.
- The Independent Monitoring Contractor is the project representative of the interveners and the EUB.
- Responsibility for updating interveners and the EUB, and for ensuring that any outstanding issues or problems are adequately raised as necessary.
- Reviewing and providing input to key project deliverables prior to distribution to the Project Committee.
- Reviewing Project Management Documents, Scope Change Requests and Customization Requests.
- Reviewing monthly project status reports.
- Reviewing risk management, issue management, problem resolution and escalates to the Project Committee, if required.
- Meeting with the respective Project Managers and Project Steering Committees as determined by agreed schedule.
- Conducting project audits or detailed review of project components if there is concern.
- Ensuring sustained understanding/buy-in of the project(s) at the intervener and Board levels.

3.9 Future Review Processes

With the exception of IPCAA, all parties were neutral or supportive of an MFR that evolved, under the direction of the Board, to respond to the needs of utilities, interveners and the Board.

The Preamble to the MFR document filed May 8, 2006, by the USA-MFR Committee states:

The Board is the custodian of the Minimum Filing Requirements (MFR) and is responsible for ensuring the requirements are amended from time to time, as required. The Board will conduct an initial formal review of the content of this MFR within three years after implementation. On an ongoing basis, the Board will initiate a formal review

of this MFR document every 3 years to ensure that its content reflect the regulatory circumstances existing at the time of the review.

The AACP, AE and FortisAlberta spoke directly to this section of the MFR and supported it. EDI/ETI stated that the Board should monitor the process before determining whether any further generic review process becomes necessary.

The AACP and EPC indicated that the ongoing development and refinement of the accounts and sub-accounts is critical to the achievement of the final benefits. They, along with EDI/ETI, advised that as with any chart of accounts, refinements will be required as utilities start to utilize it and interpret the account definitions. These parties considered that there will be growing pains as the utilities become familiar with the new accounts and filing format, and as interveners and the Board explore how each utility has approached the USA-MFR requirements.

Parties indicated that although relatively precise, accounts may be subject to differing interpretations by the utilities. Therefore, there needs to be a party responsible for advising utilities on the interpretation and use of the USA and MFR. There will also be changes in accounting requirements created either from changes in the industry or changes in accounting standards.

The AACP and EPC indicated that refinements to the USA and MFR should be controlled by the Board to ensure that all utilities are subject to the same reporting requirements and reporting is complied with on a consistent basis. There also needs to be a controlled forum in which reviews or audits are conducted on the application of the USA and MFR to the utilities operations to check that accounts are correctly and consistently used from year to year. FortisAlberta agreed to participate in and support any such process.

The AACP submitted that the EUB should establish a person or group within its utility or audit section that is active in these processes and would be available on an ongoing basis to address questions that may arise. In the initial period of setting up the USA and MFR, there may be frequent issues to be resolved regarding interpretation and application of the USA and MFR requiring the advice of the Board. The AACP recommended that all communications and directions between the utilities and the Board to resolve these issues should be in writing.

As an alternative to an independent review, AltaLink proposed that the utilities be required to file quarterly process updates in respect of the USA-MFR project costs, scope and timelines with the Board and with interested parties. AltaLink stated it does not see the need for future review processes beyond those outlined in the USA-MFR Committee report.

EDI/ETI agreed that the USA and MFR is a good starting point and that the path forward is to allow the MFR to be refined through the utility's tariff applications. It stated that through this process it will become clear how the MFR can be refined as a tool to improve the tariff application process rather than frozen in a format that may make good sense for one utility, but which may detract from clarity for others.

IPCAA, the UCA and the AACP rejected EDI/ETI's proposal for flexibility in meeting the USA-MFR requirements.

IPCAA was concerned that a number of parties indicated that changes are still required to the USA and MFR. In IPCAA's view, the purpose of the USA-MFR Committee, which met for a year, was to obtain agreement on specific accounts to arrive at some consistency for a minimum filing requirement. The agreement reached resulted in the Consensus Documents filed with the Board. IPCAA understood that there are many possible solutions to the USA and MFR and that issues can arise when companies are forced to change their regulatory approach and business models and practices. However, notwithstanding these issues, the fact remains that the USA-MFR Committee did agree on the USA-MFR model which all parties recommended to the Board.

The Board places little weight on the position of EDI/ETI that changes should be made through a utility's tariff application. The Board agrees with the AACP that

EPCOR's request for reporting flexibility would, with respect, and in the submission of AACP, defeat the basic purpose of the USA.⁴¹

In the Board's view, changes to the USA resulting from an individual utility's application would reduce the comparability of the USA and circumvent the agreement which all parties, including EDI/ETI, reached.

The Board also notes that the USA-MFR Committee report stated that:

The Board is the custodian of the Minimum Filing Requirements (MFR) and is responsible for ensuring the requirements are amended from time to time, as required.

The Board recognizes that ongoing changes, perhaps more frequent than the original three year cycle contemplated in the USA-MFR Committee's report, may be required. The Board acknowledges the achievement of the interveners and utilities in developing the Consensus Documents and considers that it would be desirable to address any future changes through a joint forum.

The Board also considers that the future review provision in the MFR is adequate and should be similarly applied to the USA. However, this provision should not preclude on-going incorporation of changes that are considered necessary to immediately capture clarity, transparency and regulatory efficiency benefits. There is no need to wait for three years after implementation to make urgent and necessary changes.

The Board is also of the view that any committee established to develop the Transition Plan could also address changes to the Consensus Documents and report back to the Board during the USA-MFR implementation phase. The Independent Monitoring Contractor may also be able to provide assistance in this regard. Therefore, the Board will also canvass views on this matter in the USA Process Letter.

The Board also recognizes that it may be necessary to review the USA and MFR to ensure that with the passage of time they are current and that they continue to adequately reflect the regulatory regime. In this regard, the Board may initiate a formal review of the USA and MFR in three years following the issuance of this Decision.

⁴¹ Transcript, Volume 4, Page 877, Lines 12-15

3.10 Other Matters

3.10.1 Project Control and Cost Accountability

In response to a question from the Board, FortisAlberta described the process that it would use to manage the implementation of the USA and MFR as follows:

The approach we would use is we do set up steering committees for these projects, and they would be comprised with people from the business. And then when you get down a level, you do have a manager, say a program manager that would likely be from the business and then the individual -- you know, then you'd have -- a layer below that would probably be IT folks. Because there is a mix you have to see. We do anticipate having significant involvement from the operations and other areas. Because you are right; you'd have to make sure you meet the needs of the businesses in these exercises.⁴²

The Board recognizes this approach as reasonable and encourages all utilities to invite participation from other areas of the business in the USA-MFR implementation projects. However, the Board sees increased value from Executive stakeholders representing broader business interests and providing the oversight necessary for the success of these complex projects.

The Board considers the implementation of the USA and MFR by the electric transmission and distribution utilities is not a technology initiative. Rather it is a strategic initiative that may impact the way the organization does its business. Therefore, it is important that the USA-MFR implementation project has sponsorship at the Senior Management level and has the involvement of the business unit heads. It should not be a project to be undertaken solely by the IT Team of the companies. Ensuring success of the USA-MFR implementation project should be an overall Executive responsibility.

The Board expects the Senior Management of the electric transmission and distribution utilities to sponsor, budget and regularly review the progress of the USA-MFR implementation process. Additionally, it would be helpful if the Executives examine the USA-MFR implementation from an overall business perspective, not simply as a technical project.

Senior Management involvement would facilitate the decision making in the project, thus reducing time and consultant costs of delays. It also makes it easier to free up key business resources to ensure the project team is given the best information and guidance further contributing to project success.

The proposed implementations are a significant expense and once implemented, the USA may well have implications for management control and budgeting. To that end, the project will require the input and control from a senior financial leadership team in order to ensure that the beneficial outcomes are maximized.

The Board understands that the USA-MFR implementation process is going to change the way of doing business. Therefore, the risks are business risks rather than technology risks. Implementation of the USA and MFR could disrupt the operations and cost considerable dollars in loss of time and opportunity. The executive team must be aware of the assessment of risks

⁴² Transcript, Volume 3, Page 505, Lines 4-18

along with the planned risk mitigation strategies. This could cover organizational issues like re-training of staff for the new system, re-structuring the organization due to the anticipated changes in process or ensure availability and uptime of mission critical systems.

4 SUMMARY OF BOARD FINDINGS AND CONCLUSIONS

Based on all of the discussion, observations, and analysis in the foregoing sections the Board has provided a summary of its findings as follows:

Implementation Costs

- Notwithstanding the finding below with respect to the proposal by AltaLink which came well after the collaborative process was completed and which suggested allocation of costs from their existing departmental budgets rather than an activity account approach which would see budgets prepared based on activities, the implementation costs and plans submitted by the utilities represent a reasonable basis on which to proceed with the implementation of the USA and MFR, particularly when viewed from the perspective of the overall cost to provide utility service in the Province and the broad support from all parties for moving forward with implementation.
- AltaLink's late suggestion of an allocation approach is unlikely to achieve the desired clarity, transparency and regulatory efficiency goals sought by most of the parties in the long run. Although it is significantly more expensive, AltaLink's original CBE approach, based on budgeting by activity, fully meets the intent and requirements of the USA. AltaLink should proceed with its CBE approach rather than its revised allocation approach for implementing the requirements of the USA and MFR.
- Project cost control is a critical and extremely important factor in the successful implementation of the USA and MFR. Therefore, even though IT is a significant aspect of the USA implementation process, project control and cost accountability must extend beyond the IT departments of the utilities to the senior management of the companies.

Benefits

- The expected benefits of adopting the USA and MFR, although somewhat unquantifiable, have the potential to be significant and to be realized if the appropriate measures are put in place. Potential benefits include: consistency and comparability of information over time; more complete and comprehensive applications, and regulatory efficiency. The Board, interveners, and the utilities each have important roles to play to ensure the potential clarity, transparency and regulatory efficiency goals are achieved.

Cut-Over Date and Transition

- Except for smaller utilities who may apply for and receive exemption, all applications filed on or after January 1, 2010 must be filed in compliance with the USA and MFR. Utilities that are in a position to meet these requirements sooner should do so.
- Subsequent to the issuance of this Decision, the Board will canvass the views of parties on the most appropriate way to develop a plan to transition smoothly from the current regime to the USA-MFR regime.

Decision Methodology

- The usual quantitative analysis to compare the dollar costs of the implementation of the USA and MFR with the expected dollar savings associated with the benefits of having such a system could not be fully performed because the benefits are more qualitative by their nature. Therefore, the assessment to determine whether it is in the public interest to proceed with implementation was done on a qualitative basis.

Affiliate Costs

- Based on the utilities' cost filings, affiliate costs are not a cause for concern in determining whether implementation of the USA and MFR should proceed. Should an issue relating to this matter arise in the future, it can be adequately addressed in the particular utility's GTA.

Future Review

- A proactive approach to monitoring the implementation processes of those utilities that require a significant amount of expenditure, a longer period of time and a complex plan to comply with the USA and MFR should be employed. Upfront and continual monitoring would inject discipline into the implementation process. It will also reduce the challenges involved in the future prudence review of the USA-MFR cost to determine the amount that should be paid by customers. Therefore, the Board will retain an independent contractor to perform this monitoring and reporting function during the implementation process. The EUB will invoice the utilities for the independent contractor costs, which will ultimately be recovered from customers.
- The Board may initiate a formal review of the USA and MFR three years after implementation to ensure that it remains current and continues to adequately reflect the existing regulatory regime.
- The future review provision in the MFR is adequate and should be similarly applied to the USA. However, this provision should not preclude on-going incorporation of changes that are considered necessary to immediately capture clarity, transparency and regulatory efficiency benefits. There is no need to wait for three years after implementation to make urgent and necessary changes. When canvassing views on the development of the transition plan, the Board will also seek comment on the method to deal with urgent and necessary changes to the USA and MFR that are identified prior to implementation.

5 ORDER

For and subject to the reasons set out in this Decision, IT IS HEREBY ORDERED THAT:

- (1) All of the electric transmission and distribution utilities that fall under the EUB jurisdiction shall adopt and use for regulatory purposes the USA and MFR whose form and content were approved in principle in EUB Bulletin 2006-25.
- (2) Except for any small electric transmission or distribution utility that may apply for and receive approval for an exemption from the provisions of the USA and MFR, all EUB regulated electric transmission and distribution utility applications filed on or after January 1, 2010 shall be filed in compliance with the USA and MFR.
- (3) Notwithstanding (2) above, utilities that are currently in a position to comply with the USA and MFR should do so immediately. Utilities that are very close to compliance with the USA and MFR should proceed to become fully compliant as soon as possible. Other utilities who have much to do to achieve compliance, should nonetheless endeavour to meet the spirit and intent of the USA and MFR to the extent possible during the period of time it takes for them to become compliant.
- (4) While the Board is not approving in this proceeding any of the approaches or their attendant costs to implement the USA and MFR that have been filed by the utilities, the Board's discussion and views in this Decision will form the basis for any future prudence or compliance assessments of a utility's implementation plan and cost.

Dated in Calgary, Alberta on March 6, 2007.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

J. I. Douglas, FCA
Presiding Member

(original signed by)

R. G. Lock, P.Eng.
Member

(original signed by)

B. T. McManus, Q.C.
Member

APPENDIX 1 – HEARING PARTICIPANTS

Name of Organization (Abbreviation) Counsel or Representative	Witnesses
EPCOR Distribution Inc./EPCOR Transmission Inc. (EDI/ETI) J. Liteplo	R. Stout D. Fung J. Bryon
ATCO Electric Ltd. (AE) L. Keough K. Beattie	D. Freedman
ENMAX Power Corporation (EPC) D. Wood	K. Hubick S. Spooner (Consultant)
AltaLink Management Ltd. (AltaLink) H. Williamson, Q. C. S. Wahl-Hrdlicka	B. Crnkovic M. Higgins J. Piotto
FortisAlberta Inc. (Fortis) T. Dalgleish, Q. C.	M. Olson A. Skiffington G. Smith G. Holizki (Consultant)
Industrial Power Consumers Association of Alberta (IPCAA) D. Macnamara	
Public Institutional Consumers of Alberta (PICA) N. McKenzie	
Consumers Coalition of Alberta (CCA) J. Wachowich	
Alberta Urban Municipalities Association (AUMA) N. J. Parker C. R. McCreary	
Utility Consumer Advocate (UCA) R. Henderson N. J. Parker	D. Gray J. Laskoski (Consultant) R. Bell (Consultant) H. Vander Veen (Consultant)
The AACP consisting of AFREA, AAMDC, CCA and PICA T. Marriott	

<p>Alberta Energy and Utilities Board</p> <p>Board Panel</p> <p>J. I. Douglas, FCA, Presiding Member R. G. Lock, P.Eng., Member B. T. McManus, Q. C., Member</p> <p>Board Staff</p> <p>C. Wall (Board Counsel) M. L. Asgar-Deen, P.Eng. D. Mitchell C. Buchanan (Consultant)</p>	
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