FortisAlberta Inc.

Compliance Filing – Special Facilities Charge

March 23, 2012
The Alberta Utilities Commission
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Compliance Filing – Special Facilities Charge
Application No. 1608016
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1 Background

1. On December 22, 2011, FortisAlberta Inc. (Fortis) filed a compliance filing application (the application or compliance filing) with the Alberta Utilities Commission (the AUC or the Commission) pursuant to the Commission’s direction set out in Decision 2011-176 issued on May 2, 2011 (the decision). In its compliance filing, Fortis provided updated calculations and a rate schedule for the special facilities charge (SFC) and details on how the construction of specific facilities would be arranged with individual customers.

2. In the original application, Fortis described the SFC as follows:

   The Special Facilities Charge is a charge that will be applicable to facilities on customer owned or leased property, as requested by the customer and agreed to by FortisAlberta. The charge is to be customer specific and would be set out in an agreement between the customer and FortisAlberta. FortisAlberta would ensure recovery of the associated revenue requirement of the applicable facilities, which will be calculated on a rate base of net book value and will include return, income tax, depreciation and operating and maintenance costs.

   ... These customers require a specific level of service for which current rates may not be applicable, thus limiting the potential efficiencies of the overall system for all customers. The introduction of a Special Facilities Charge provision within FortisAlberta’s service area will allow for better planning, coordination and integration of the special facilities within the context of the orderly, economic and efficient development of the Alberta integrated electric system.²

3. Fortis also stated that the SFC is subject to change as new facilities are added or retired. SFC facilities will be owned and maintained by Fortis and shared facilities will have separate agreements for each customer using the special facilities.³ Existing assets would also be subject to the customer agreements and incorporated in Rider E.

4. The proposed SFC was made on the basis that the facilities and the charge will be part of Fortis’s regulated distribution service under Rider E.⁴

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³ Ibid., page 3.
⁴ Exhibit 4, application, paragraph 16.
5. In Decision 2011-176, the Commission ordered:

44. (1) The Special Facilities Charge (SFC) is approved effective June 1, 2011, to be offered where agreed to by a customer and Fortis, subject to Commission approval of the methodology to calculate the charge.\(^5\)

6. In its decision, the Commission found that the proposed regulated charge does not properly share the costs and risks of the proposed service with existing customers.\(^6\)

7. The Commission raised the following points for Fortis’s consideration:

- whether the provision of special facilities that would be subject to a SFC charge should be offered as an unregulated service\(^7\)
- the choice to use an accelerated depreciation rate in the calculation of the special facilities charge\(^8\)
- the implications on the removal of assets from rate base when no longer required to be used in utility service\(^9\)

8. The Commission noted the proposed rate sheet was not specific how the calculation and impact of the proportional charge for operations and maintenance would take place.\(^10\) To address this issue, the Commission:

- stated that the O&M charge must include a full proportional allocation of all rate base and non-rate base related costs, noting that other ratepayers should benefit from a reduction in their pro-rata share of allocated overhead\(^11\)
- directed Fortis to record and assign to the SFC the fully allocated charges incurred in the set-up and maintenance of SFC customer agreements\(^12\) (agreements)
- directed that Fortis provide its proposed methodology for calculating the annual SFC payable under a special facilities service contract prior to entering into its first regulated special facilities service contract\(^13\)

9. Fortis submitted that its application is made in compliance with the matters raised in Decision 2011-176 and directions provided by the Commission therein. In consideration of these matters, Fortis undertook consultations with the Office of the Utilities Consumer Advocate (UCA), the Industrial Power Consumers association of Alberta (IPCAA) and prospective SFC customers. Based on these consultations, the following matters are addressed in Fortis’s application:

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\(^5\) Decision 2011-176, paragraph 44(1).  
\(^6\) Ibid., paragraph 34.  
\(^7\) Ibid., paragraph 38.  
\(^8\) Ibid., paragraph 39.  
\(^9\) Ibid., paragraphs 35 to 37.  
\(^10\) Ibid., paragraph 40.  
\(^11\) Ibid., paragraph 41.  
\(^12\) Ibid., paragraph 42.  
\(^13\) Ibid., paragraph 43.
• the provision of the SFC service on a regulated basis as opposed to an unregulated basis, now proposed to be provided under the nomenclature of “Customer Specific Facilities Rider E” (Rider E) for tariff purposes
• the principle that Rider E must properly share the costs and risks of default with existing customers in its service area, including the management of risk through an acceleration of asset depreciation and other means
• the requirement to provide the Commission with the allocation of costs and method of calculating Rider E before Fortis enters into any regulated Rider E contract with a customer
• the risk associated with asset costs remaining after a customer default or bankruptcy
• an approach that will permit the provision of Rider E in a manner that aligns with the principle that the rate must provide for a reasonable sharing of the benefits, costs and risks with existing customers\textsuperscript{14}

10. The Commission issued notice of the application on December 23, 2011. Statements of intention to participate (SIPs) were received on January 10, 2012, from IPCAA, ATCO Electric Ltd. (AE), AltaLink Management Ltd. (AML) and the UCA. AML indicated that it intended to monitor the proceeding.

11. Both IPCAA and the UCA indicated that they had met with Fortis to discuss the proposed SFC. During the course of the proceeding, IPCAA and the UCA confirmed that their concerns had been adequately addressed and that they did not oppose the application.\textsuperscript{15} The UCA stated in its SIP “FAI has included in the present application the clarification and proposed refinements discussed with the UCA and IPCAA and the UCA agrees with FAI that the UCA’s concerns have been addressed adequately as reflected therein.”\textsuperscript{16}

12. On January 24, 2012, the Commission requested that Fortis respond to a number of preliminary information requests. Fortis provided its responses to these requests on January 31, 2012.

13. In a letter dated February 3, 2012, the Commission requested comments from parties on the need for further process. On February 6, 2012, AE, Fortis and the UCA responded that there was no need for further process. The Commission considered the record of this proceeding to be closed as of February 8, 2012.

14. On March 13, 2012, the Commission issued Bulletin 2012-03, in response to a letter from the Minister of Energy dated March 8, 2012 regarding current electricity rates and charges, including rate riders to collect deferred balances, requesting “that the AUC ensure these rates or charges do not exceed their current levels.” The bulletin described the Commission’s proposed approach to the Minister’s letter and invited comments from affected parties.

15. Comments were received from the applicant and the UCA on March 16, 2012. Fortis stated that approval of this application will not cause any increase in current rates.” This decision accords with Bulletin 2012-03 and comments received.

\textsuperscript{14} Exhibit 4, application, pages 1 and 2.
\textsuperscript{15} Exhibit 10.01 and Exhibit 13.01, pages 1 and 2.
\textsuperscript{16} Exhibit 13.01, pages 1 and 2.
\textsuperscript{17} Exhibit 23.01.
16. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, including the evidence and argument provided by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission’s reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

2 Response to Commission observations

2.1 Sharing of costs and risks

17. The Commission raised the following concern in Decision 2011-176:\(^\text{18}\)

However, the Commission agrees with the UCA that the proposed regulated charge does not properly share the costs and risks of such a service with the existing customers.

18. Fortis submitted that the proposed “Early Abandonment Adjustment” (EA) and the other measures described mitigate the risk that existing customers will be responsible for the cost of abandoned Rider E facilities. Further, Fortis also submitted that the proposed refinements reflect the consensus of its discussions with the UCA and IPCAA. The EA will be discussed further in Section 2.2.2.1 below.

2.1.1 Special facilities charge as a regulated service

19. In its decision, the Commission commented on the proposal to implement Rider E as regulated service:

Although the Commission has approved in principle the addition of a special facilities charge, given the Commission’s views on the matters addressed above, Fortis may wish to proceed with the special facilities charge as an unregulated service.\(^\text{19}\)

20. Pursuant to this comment Fortis confirmed that the special facilities and services would be subject to the proposed Rider E and should be regulated. Fortis noted that this was central to its application and that offering such service through an unregulated affiliate or division of the utility would so alter the foundation of the application as to make the service unfeasible for FortisAlberta and its customers.\(^\text{20}\)

21. Fortis stated that the facilities to be included in the Rider E are the same types of distribution utility facilities used to serve points of service under standard distribution rates. Fortis’s construction of facilities under Rider E would be similar to those facilities constructed for customers with industrial load requirements on a regulated basis and that in many cases the Rider E assets will be part of the existing distribution system.\(^\text{21}\)

22. Fortis included as attachments two schematics\(^\text{22}\) of existing electrical distribution systems depicting how the existing assets would be incorporated into a Rider E arrangement. Fortis

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\(^{18}\) Decision 2011-176, paragraph 34.
\(^{19}\) Decision 2011-176, paragraph 38.
\(^{20}\) Exhibit 4, application, paragraph 16.
\(^{21}\) Exhibit 4, application, paragraph 17, and 18 and 23.
\(^{22}\) Exhibit 4, application, attachments 1 and 2.
explained how the need for a Rider E distribution service developed for certain industrial customers. Fortis stated that the existing regulated service before Rider E will end at the transformer for these large customers as is currently the case. Fortis indicated that the types of electrical infrastructure under Rider E would be similar to those currently used to provide service to distribution rate customers and would include: poles, overhead and underground conductors, transformers, voltage regulators, and switch and capacitor banks.  

23. Fortis submitted that if it were to construct and operate these distribution services through an unregulated affiliate, it would be unnecessarily complex and not the most feasible method of providing service to this segment of customers.  

24. Rider E would facilitate the construction of additional dedicated facilities to meet the customer’s functional requirement or as a replacement of existing assets that need to be removed or upgraded.  

Commission findings  

25. In its initial application that resulted in Decision 2011-176, Fortis described the need for a SFC and the delineation of service for regulated assets as follows:  

The regulated distribution assets that were used to provide the numerous smaller downstream facilities and services are effectively stranded below the interconnection point (behind the meter), and there is no way to apply the current distribution tariff to recover the cost of these regulated downstream assets. The Special Facilities Charge effectively allows FortisAlberta to retain ownership and operation of the regulated assets and isolate and recover those costs from the customer on a customer-specific basis, while keeping all other customer rate classes whole.  

26. The proposed Rider E charge enables the owner of the distribution system to provide service to a customer and recover costs, while allowing the Rider E customer the option to contract for individual facilities and services.  

27. In Decision 2011-176, the Commission observed that Fortis may wish to proceed with the special facilities charge as an unregulated service but Fortis responded that Rider E was more properly provided as a regulated service. In terms of providing services and facilities on an unregulated basis, Fortis has submitted that offering the SFC through an unregulated affiliate or division of the utility would make this service unfeasible for the utility and its customers.  

28. The discussion of regulated utility service in the Rider E context is guided by the definitions of “customer,” “owner,” and Section 101 of the Electric Utilities Act, S.A. 2003, c. E-5.1. A customer under the Electric Utilities Act is a person purchasing electricity for the person’s own use and an owner includes the owner of a facility or system. Sections 101(1) and 101(3) of the Electric Utilities Act detail the parameters of the electric distribution service:  

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23 Exhibit 4, application, paragraph 22.  
24 Ibid., paragraph 23.  
25 Exhibit 4, application, Appendix 1, B-2, page 3.  
26 Application No. 1606706, Proceeding ID No. 909, Exhibit 18.04, AUC-FAI-003(f).  
27 Exhibit 4, application, paragraph 16.  
28 Ibid.
Owner’s right to provide electric distribution service

101(1) A person wishing to obtain electricity for use on property must make arrangements for the purchase of electric distribution service from the owner of the electric distribution system in whose service area the property is located.

…

(3) No person other than the owner of an electric distribution system may provide electric distribution service on the electric distribution system of that owner.

29. Fortis’s proposed Rider E, as detailed in the compliance filing, is consistent with regulated utility service under Section 101 the Electric Utilities Act, which establishes the ability of a person to obtain electricity service from the distribution utility in whose service area the property is located. Fortis’s provision of the SFC service is consistent with the provision of electric distribution service within its service area.

30. In reviewing Fortis’s application, the Commission recognizes that there may be benefits to Fortis and its customers in providing harmonized service offerings and greater choice in a range of services in response to customer needs. The Commission finds that Rider E provides the customer with the choice to take the existing regulated facilities and services offered with the addition of customized facilities and services as Rider E. This is consistent with the Electric Utilities Act and the regulation of utility service. However, the Commission considers that the extension of regulated utility service does not, and should not extend to all assets and services contracted and provided to a customer. There may be instances where a contracted facility or service should be provided on a solely unregulated basis, rather than the facility or service being necessary for provision of electric distribution service in the owner’s service area under section 101 of the Electric Utilities Act.

2.2 Rider E method of calculation and allocation of costs

31. To clarify the calculation of Rider E, the Commission in Decision 2011-176 stated that the O&M charge must include a full proportional allocation of all rate base and non-rate base related costs, noting that other ratepayers should benefit from a reduction in their pro-rata share of allocated overhead.

- directed Fortis to record and assign to the SFC the fully allocated charges incurred in the set-up and maintenance of SFC customer agreements (agreements) and

- directed that Fortis provide its proposed methodology for calculating the annual SFC payable under a special facilities service contract prior to entering into its first regulated special facilities service contract

32. In Appendix 1 of the application, Fortis provided an example of the calculation methodology for Rider E. Rider E will be estimated and charged monthly, with a final calculation including the annual true-up amount, to be determined after the end of each calculation period. The calculation period, unless otherwise specified within the agreement, will

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29 Ibid., paragraphs 40 to 43.
30 Ibid., paragraph 41.
31 Exhibit 7.01.
include the full calendar year ending December 31. Partial year calculations of the charges will be applied if the agreement is not effective on January 1 or if the agreement is terminated before the end of the year on December 31.

33. Fortis submitted that Rider E will be calculated based on direct costs associated with the customer specific facilities and based on an allocation of indirect costs where it is not feasible to track costs directly attributable to the customer specific facilities. The SFC customer will pay Fortis an annual charge, calculated monthly, consisting of a capital-related charge, an O&M charge, and an annual true-up amount, where applicable.32

2.2.1 O&M charges

34. Fortis submitted that O&M costs attributable to the SFC include direct O&M costs, administration, general overhead costs, set-up costs, other customer specific costs, and any applicable taxes. The O&M charged under each agreement will be tracked separately, will vary on a monthly basis, and will include the following:

- Fortis operations: work performed by operations staff and vehicles used for work related to the Rider E, not included in the capital costs, will be charged at a fully-loaded rate, consistent with the rates normally charged by Fortis to third parties.
- Financial/administrative staff for Rider E contract administration:
  - charged at a fully-loaded rate consistent with the rates normally charged by Fortis to third parties
- contract work: directly charged
- expenses: directly charged
- materials: charged at a fully-loaded rate, to reflect Fortis material handling
- other customer specific costs as required33

35. Fortis indicated that the general and administrative shared costs include such items as billing, regulatory costs, customer service and IT related charges. General and administrative shared costs will be allocated to SFC customers based on the cost allocation for large general service (Rate 63) customers for the Rate 63 customers’ portion of general and administrative expenses including the 2011 approved Rate 63 rate change, escalated to 2011 dollars. The allocation of general and administrative shared costs will escalate consistent with changes in Rate 63 rates and approved cost allocation studies. As part of Fortis’s cost allocation, Fortis’s staff hours and IT will be charged to Rider E customers at a fully loaded rate, and a corresponding portion of general O&M will be removed from the allocated general overhead costs.34

36. For set-up costs related to the SFC, Fortis states that its systems and processes will require modification in order to accurately track Rider E costs. The initial set-up costs are estimated to be approximately $300,000.35 These costs will be recovered over a 10-year period from Rider E customers. The annual set-up charge to be billed to each customer will be determined by dividing the annual balance at year end by the actual number of Rider E

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32 Ibid., page 1.
33 Ibid.
34 Exhibit 4, application, paragraphs 39 and 43.
35 Exhibit 4, application, paragraph 46.
customers. Costs of electrical system upgrades or enhancements specifically related to Rider E will be directly recovered through the Rider.36

37. Fortis stated that as general overhead costs are included in the fully-loaded hourly rate directly charged to Rider E customers, to avoid double charging, a corresponding portion of general O&M will be removed from the allocated general overhead costs. The example provided in Appendix 3.2 results in a $0.15 million reduction in Rate 63 general overhead costs.37

Commission findings

38. The Commission has reviewed the cost allocation proposed and understands the methodology to be as follows. Fortis allocates a portion of general O&M to Rate 63, which includes the SFC customers. In the normal course, if Fortis did not have a SFC customer, the general O&M would be allocated to each of the Rate 63 customers including a portion to the SFC customer. In this case though, the general O&M costs are allocated to the Rate 63 customers other than the SFC customer. The SFC customer pays its portion of the general O&M costs through the loading in the fully loaded charges. In order to make sure that Fortis does not collect all of the general O&M charges from the Rate 63 customers and then collect some of the costs through allocation in the fully loaded charges, Fortis then subtracts an amount from the general overhead costs allocated to Rate 63 customers. In that way, the other Rate 63 customers benefit from the presence of the SFC customer.

2.2.2 Capital-related charges

39. Fortis proposed in Appendix 1 of its application that costs associated with the ownership of the facilities provided under the Rider E will be assessed to the applicable Rider E customer, including costs to manage anticipated replacements, retirements and removals of the facilities.38 Fortis’s formula for capital related charges is as follows:

\[
\text{Capital-related Charges} = (BV \times D) + EA + ((RB + WC) \times WACC) + Ret + Res + COD
\]

Where:
- BV = Book Value
- D = Rate of Depreciation
- EA = Early Abandonment Adjustment
- RB = Facilities Rate Base
- WC = Working Capital
- WACC = Weighted Average Cost of Capital
- Ret = Gain or Loss on Retirement
- Res = Site Restoration Adjustment
- COD = Capital Overhead Deferral

40. The Commission will discuss the methodology for calculating depreciation and the early abandonment adjustment for the SFC in the sections to follow.

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36 Exhibit 7, Appendix 1, A-3, page 2.
37 Exhibit 4, application, paragraph 43.
38 Ibid.
2.2.2.1 Accelerated depreciation and the early abandonment adjustment

41. In the decision the Commission suggested that Fortis may choose to consider the option of accelerating depreciation rates in the calculation of its SFC:

Fortis may also choose, as suggested by the UCA, to use an accelerated depreciation rate in the calculation of the charge in order to minimize any residual costs should the special facility customer default prior to the end of the asset life.  

42. Fortis indicated that it consulted with the UCA, IPCAA and prospective Rider E customers, regarding the use of accelerated depreciation rates in order to minimize any residual costs should a customer default occur. In its compliance filing, Fortis proposed a maximum 30-year asset life for depreciation purposes as illustrated in the table below:

Table 1. Standard depreciation rates and proposed Rider E cost recovery

<table>
<thead>
<tr>
<th>Description</th>
<th>Asset life (years)</th>
<th>Proposed Rider E maximum recovery (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poles, towers, fixtures</td>
<td>48</td>
<td>30</td>
</tr>
<tr>
<td>Overhead conductors</td>
<td>48</td>
<td>30</td>
</tr>
<tr>
<td>Underground conductors</td>
<td>58</td>
<td>30</td>
</tr>
<tr>
<td>Transformers / regulators / OCRs</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>SCADA</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Street lighting</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Street light poles</td>
<td>45</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Exhibit 4, application, page 6.

43. The capital related charges formula set out above includes a mechanism to accelerate the collection of depreciation expense through the use of the EA. The EA will be applied to accelerate the depreciation rates of the distribution facilities, in order for the book value cost of the facilities to be recovered within the operational life of the project subject to a maximum life of 30 years.

44. In AUC-FAI-003 Fortis further clarified:

Depreciation will be calculated using the same rate, method and Iowa curve shape currently being used for the asset. The additional charge, designed to accelerate the collection of the cost of the asset, is referred to as an Early Abandonment Adjustment. The Early Abandonment Adjustment will be calculated as the difference between the straight-line depreciation of the asset over 30 years and the currently calculated depreciation with the full collection of the cost of the asset by the 30th year of service.

45. In response to AUC-FAI-03, Fortis provided an example of the “accelerated depreciation” charge. In the example a straight line depreciation method was used. A note to the

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39 Decision 2011-176, paragraph 39.
40 Exhibit 4, application, paragraph 25.
41 Exhibit 16.02.
calculation indicated that the depreciation rate does not include the “net salvage collection”\(^{42}\) which would be included in the overall amount collected from the Rider E customer.

46. It appears that Fortis addressed the issue of salvage costs through the introduction of the site restoration costs (Res) to the calculation formula. In Appendix 1 the Res portion of the formula is discussed:

Site Restoration for purpose of the Rider E is a collection of the expected cost of removal to be incurred at the end of the asset life. A site restoration amount will be calculated monthly by taking the book value of the Rider E assets, by asset class, and applying the site restoration rates as approved by the Commission for the applicable year. The accumulated site restoration amounts will be tracked separately for Rider E assets associated with each Agreement. Actual costs of removal during the calculation period will be charged to this balance. To the extent the actual costs of removal exceed the available accumulated site restoration amount, required adjustments will be assessed to the Rider E for the calculation period.\(^{43}\)

**Commission findings**

47. The Commission has reviewed the depreciation methodology and finds it consistent with the choice to use accelerated depreciation offered in Decision 2011-176.

48. In response to AUC-FAI-003(a)\(^{44}\) Fortis did not indicate whether the combined accumulated depreciation plus EA adjustment plus Res will always be in excess of what accumulated depreciation would have been using the rate consistent with the currently approved Iowa curve. From Fortis’s answer it is possible to interpret that the Rider E depreciation amount could be lower in the initial years of the asset life. The Commission understands based on the description in paragraph 25(2) of the application and paragraph 3 of Appendix 1 that it is the intent that the accelerated depreciation plus the EA and Res is to be based on rates approved by the Commission.\(^{45}\) The Commission approves the principle of an accelerated depreciation method subject to the restriction that the accumulated depreciation plus the EA plus Res is greater than or equal to the accumulated depreciation that would have resulted using the current Commission methodology for the asset class.

2.3 **Stranded assets**

49. In paragraphs 35 to 37 of the decision, the Commission stated it appears that any special facilities assets that are stranded due to a bankruptcy or other customer default would be removed from rate base. The Commission relied on the Stores Block decision\(^{46}\) and Carbon decision\(^{47}\) which stated that assets no longer required to be used in utility service are to be removed from rate base. At paragraph 37 the Commission stated:

\(^{42}\) Ibid., footnote on page 1 of 2, which reads, “The depreciation rate does not include the net salvage collection which would be included in the overall amount collected from the Rider E customer. The depreciation rates applied in this example are the rates approved for 2011.”

\(^{43}\) Appendix 1, B-10, page 5.

\(^{44}\) Exhibit 16.02.

\(^{45}\) “The Early Abandonment Adjustment fee will be applied in such a fashion so as to effectively accelerate the depreciation rates of the distribution facilities.”


\(^{47}\) ATCO Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board) [2008] ABCA 200.
37. Given the direction of the courts, it appears to the Commission that if a special facility customer were to abandon the facilities and they were not, within a reasonable period of time, used for other utility customers, those assets would have to be removed from rate base and Fortis shareholders, not remaining utility customers, would bear responsibility for the costs.

50. In its compliance filing, Fortis provided further information on its proposed treatment of stranded assets and the recovery of residual costs in the SFC:

While not expressly indicated in the initial Application, FortisAlberta wishes to clarify that it was and remains its intent to remove any abandoned Rider E assets from rate base once and to the extent all residual costs are recovered from the Rider E customer. Under a Rider E agreement, a customer shall be contractually liable for the whole of the residual cost of any abandoned and salvages facilities. This cost responsibility applies to the specific Rider E customer who is abandoning the facilities and applies whether all of the facilities or only selected facilities under the Rider E Agreement are no longer required, regardless of the reason for retirement. Once the cost is recovered, the assets would be removed from rate base.  

51. Appendix 1 of the compliance filing states on page 5 under “Gain or Loss on Retirements:”

Rider E assets will be retired when they must be replaced or when they are no longer required. The value of the retirements will be removed from the book value of Rider E assets during the month they are removed from service. There may be a gain or a loss on retirement, which will be assessed to the Rider E [sic]. Similar to the book value of the Rider E assets, the retirements of the Rider E assets will be tracked separately, the gain or loss will be refunded or collected in the year of retirement, or in the following year through the annual true-up process.

52. In response to AUC-FAI-1(e)(i) Fortis stated that due to an appeal and review and variance of the Commission’s Generic Cost of Capital decision, Decision 2011-474. FortisAlberta suggests and requests that the better forum for discussion and debate on stranded asset matters before the Commission is in such generic proceedings, where all affected parties are present. It is for such reason that in this Rider E Compliance proceeding FortisAlberta, having consulted and addressed the Commission’s earlier concerns about Rider E, has sought only that the Commission facilitate Rider E service moving forward by confirming, as above, “that the regulated service it will provide under Rider E be subject to the same asset retirement considerations as may develop and pertain to assets used for the other regulated services provided by it.” Such a confirmation will not predispose or predetermine matters that may be debated in the pending generic considerations.

53. Fortis also stated in response to AUC-FAI-1(e)(ii) that it regularly retires and removes from service assets which are no longer used to provide utility service. Fortis cited as an example

\[48\) Exhibit 4, application, paragraph 29.
\[49\) Exhibit 7, page 5.
\[50\) Exhibit 16.02.
\[52\) Exhibit 16.02.
a power pole damaged by lightning during a storm, which would be retired as it no longer provides utility services and may not be fully depreciated. The capital costs of such facilities are collected in the normal course in future rates through accumulated depreciation.

Commission findings

54. Fortis submitted that the costs of SFC assets that are retired or no longer used to provide service would be recovered from the applicable Rider E customer. The cost of SFC assets that cannot be recovered from a Rider E customer, because of bankruptcy or other reason, and could not be used by another Rider E customer, would be stranded assets. It would appear that the intention of Fortis with respect to SFC stranded assets would be to treat these assets as any other distribution system rate base asset and to recover ongoing operating costs and the remaining undepreciated capital costs in the same fashion as those under standard distribution rates.\(^5^3\)

55. Fortis further submitted that the SFC application does not raise unique issues related to stranded assets that do not generally apply to stranded assets of all utilities. The Commission should provide its final approval of the SFC and defer further consideration of stranded asset matters to the ongoing review and variance and appeal of Decision 2011-474, the 2011 Generic Cost of Capital decision.

56. In Decision 2011-176, the Commission agreed to proceed to approve a SFC for the service subject to approval of the basis on which the charge is to be calculated.\(^5^4\) In that decision, the Commission offered Fortis the opportunity to use accelerated depreciation and other measures to minimize its risk and expressed its view with respect to the treatment of stranded assets. Fortis has sought to minimize the risk through accelerated depreciation and, at the same time, maintain the backstop that other customers would have to cover any stranded costs. Fortis has indicated that it does not agree with the Commission’s discussion of stranded assets, and it has proposed in its application the recovery of stranded costs through Rider E in a manner no different than the treatment and recovery of stranded costs arising from assets used to provide other regulated services.

57. While the Commission acknowledges that the issue of stranded assets is currently subject to a review and variance application and an appeal of Decision 2011-474, the Commission finds that this application does raise unique issues related to stranded assets. The Rider E assets are being used to provide a service that Fortis itself has acknowledged could be provided on an unregulated basis.\(^5^5\) The intent that all customer rate classes would bear the risk of Rider E stranded assets was articulated in AUC-FAI-006(c).\(^5^6\)

In the event of bankruptcy or the Special Facilities Charge becoming otherwise uncollectable, FortisAlberta would intend to treat the unrecovered costs as it does for any other regulated asset (e.g. Rate 61 or Rate 63) used to provide electric distribution service. That is, the net unrecovered amount would be included in rate base in the next DTA and allocated to all customer rate classes based on the Phase II cost allocation method approved by the Commission. In the current test period, FortisAlberta would continue to incur the costs with no offsetting miscellaneous revenues.

\(^{53}\) Exhibit 4, application, paragraph 34.
\(^{54}\) Decision 2011-176, paragraph 25.
\(^{55}\) Exhibit 4, application, paragraph 23.
\(^{56}\) Proceeding ID No. 909, Exhibit 29.05.
58. The Commission finds that to expose existing customers to the risk of stranded assets for what could be an unregulated service would mean that customers of monopoly regulated services would have to bear a risk that would properly fall to the company in a competitive market. This, in effect, requires the customers of monopoly services to subsidize the offering of a competitive service.

59. The Commission approves Rider E, subject to the clarification regarding the calculation of accelerated depreciation noted in paragraph 46. In approving Rider E, the Commission is not authorizing the recovery of any future stranded investments from other rate payers. That issue can be addressed in the event the assets in question are ever stranded.

60. The Commission has also considered whether it should be approving tariffs for special facilities and services on the customers’ premises in any event. Since a number of companies have approved special facilities tariffs in place, the Commission will provide an opportunity for all utility companies to address this issue in the future.

3 Order

61. It is hereby ordered that:

(1) The Commission approves the compliance filing for FortisAlberta’s special facilities charge.


The Alberta Utilities Commission

(original signed by)

Willie Grieve, QC
Chair

(original signed by)

Kay Holgate
Commission Member

(original signed by)

Bill Lyttle
Commission Member
Appendix 1 – Proceeding participants

<table>
<thead>
<tr>
<th>Name of organization (abbreviation)</th>
<th>counsel or representative</th>
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<tbody>
<tr>
<td>FortisAlberta Inc. (Fortis)</td>
<td>K. Bomhof</td>
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<td>M. Stroh</td>
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<td>J. Walsh</td>
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<td>ATCO Electric Ltd. (AE)</td>
<td>L. Keough</td>
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<td>N. Palladino</td>
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<td>L. Kizu</td>
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<td>B. Yee</td>
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<td>AltaLink Management Ltd. (AML)</td>
<td>K. Evans</td>
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<td>D. Fischbach</td>
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<td>J. Piotto</td>
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<tr>
<td>Industrial Power Consumers Association of Alberta (IPCAA)</td>
<td>M. Forster</td>
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<td>V. Bellissimo</td>
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<td>R. Mikkelsen</td>
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<td>Office of the Utilities Consumer Advocate (UCA)</td>
<td>T. D. Marriott</td>
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<td>R. Daw</td>
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<td>R. Bell</td>
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<td>The Alberta Utilities Commission</td>
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<tr>
<td>Commission Panel</td>
<td>W. Grieve, QC, Chair</td>
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<td>K. Holgate, Commission Member</td>
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<td>B. Lyttle, Commission Member</td>
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<td>Commission Staff</td>
<td>A. Sabo (Commission counsel)</td>
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<td>B. Whyte</td>
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<td>W. Frost</td>
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