The City of Red Deer

2015-2017 Transmission Facility Owner General Tariff Application

July 7, 2015
Alberta Utilities Commission
Decision 3599-D01-2015
The City of Red Deer
2015-2017 Transmission Facility Owner General Tariff Application
Proceeding 3599
Application 1611117-1

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Fifth Avenue Place, Fourth Floor, 425 First Street S.W.
Calgary, Alberta
T2P 3L8

Telephone: 403-592-8845
Fax: 403-592-4406

Website: www.auc.ab.ca
Alberta Utilities Commission  
Calgary, Alberta

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1 Introduction

1. On December 19, 2014, The City of Red Deer submitted an application to the Alberta Utilities Commission (AUC) for approval of a 2015-2017 transmission facility owner (TFO) tariff. This application filed pursuant to sections 37, 119 and 124(2) of the Electric Utilities Act (EUA), SA 2003, c. E-5.1 applies to transmission facilities owned by the City of Red Deer and operated by The City of Red Deer Electric Light and Power department (EL&P), collectively referred to as “Red Deer” or “RD.”

2. Red Deer requested approval of its proposed revenue requirement for the period from January 2015 to December 2017 (test-period), which includes the reconciliation and maintenance of the following deferral and reserve accounts:

   (i) return on equity deferral account
   (ii) direct-assign deferral account
   (iii) hearing cost reserve
   (iv) self-insurance reserve

3. Red Deer provided information on EL&P’s compliance with all outstanding directions in respect of Decision 2013-073 and Decision 2013-214.2

4. The Commission issued notice of the application (notice) on December 22, 2014. In that notice, the Commission asked any person or group with concerns or objections to the application, or who wished to support the application, to file a submission with the Commission by the participant closing date of 2 p.m., January 9, 2015. In their submissions, interested parties were directed to provide an explanation of their position, including information in support of the position as well as need for further process with supporting rationale.

5. A statement of intent to participate (SIP) was filed by the Consumers’ Coalition of Alberta (CCA) in response to the notice on January 6, 2015.

6. The CCA indicated that it wanted the opportunity to test the application through a process of written information requests (IRs) before commenting on whether it objects or does not object to the application. The CCA added that it intended to file information requests, review responses, and file argument and reply argument.

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7. The Commission reviewed the SIP and determined that the application would be handled by way of a minimal written process proceeding. The Commission set out the following initial process schedule for the application in a letter dated January 19, 2015:

<table>
<thead>
<tr>
<th>Process step</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRs to Red Deer</td>
<td>February 5, 2015, 4 p.m.</td>
</tr>
<tr>
<td>Red Deer IR responses</td>
<td>February 19, 2015, 4 p.m.</td>
</tr>
<tr>
<td>Argument</td>
<td>March 5, 2015, 4 p.m.</td>
</tr>
<tr>
<td>Reply argument</td>
<td>March 16, 2015, 4 p.m.</td>
</tr>
</tbody>
</table>


9. On February 24, 2015, the CCA submitted a letter requesting a second round of IRs. The CCA proposed that the second round of IRs be submitted by March 2, 2015, and proposed subsequent dates for information responses, argument and reply argument. The CCA anticipated that the supplementary IRs would include questions related to Red Deer’s project management policies and practices, particularly as they relate to the Timberland substation and transmission line project and associated contributions.

10. In a letter dated February 25, 2015, the Commission granted the CCA’s request and revised the proceeding schedule as follows:

<table>
<thead>
<tr>
<th>Process step</th>
<th>Original deadline</th>
<th>Revised deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round 2 IRs to Red Deer</td>
<td>N/A</td>
<td>March 2, 2015</td>
</tr>
<tr>
<td>Red Deer’s responses to Round 2 IRs</td>
<td>N/A</td>
<td>March 13, 2015</td>
</tr>
<tr>
<td>Argument</td>
<td>March 5, 2015</td>
<td>March 27, 2015</td>
</tr>
<tr>
<td>Reply argument</td>
<td>March 16, 2015</td>
<td>April 10, 2015</td>
</tr>
</tbody>
</table>


12. On March 24, 2015, Red Deer sent a letter to the Commission stating that it was prepared to file its final argument tariff schedules updated for the impact of Decision 2191-D01-2015\(^3\). Red Deer submitted that updates to the calculation of deferral accounts for 2013-14 and the cost of capital used in the tariff forecast for 2015-2017 would help streamline regulatory approvals and minimize administrative costs.

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13. On March 26, 2015, the Commission directed Red Deer to update its filing based on the recently released Decision D2191-D01-2015 and to provide a black lined version of all updated schedules by March 27, 2015. In doing so, it also provided interveners with the opportunity to respond to the updated schedules by April 2, 2015.

14. Red Deer submitted the updated schedules on March 27, 2015. The CCA responded on April 7, 2015, stating that it had reviewed the updated filing and was prepared to proceed to argument and reply without further process. The CCA added that due to the current uncertain economic environment in Alberta and considering the three-year test period proposed by Red deer, further process may be required to determine appropriate inflation/escalation factors for Red Deer. The CCA recommended that the matter be dealt with as part of a compliance filing process.

15. The Commission issued a letter on April 7, 2015, setting out the remaining process as follows:

<table>
<thead>
<tr>
<th>Process step</th>
<th>Revised deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simultaneous written argument</td>
<td>April 16, 2015</td>
</tr>
<tr>
<td>Simultaneous written reply argument</td>
<td>April 23, 2015</td>
</tr>
</tbody>
</table>

16. Written final argument was received from Red Deer and the CCA on April 16, 2015. Written reply argument was submitted by the parties on April 23, 2105. In its written reply argument, the CCA stated that it had no further comments.

17. On April 27, 2015, the CCA filed a letter taking exception to certain statements in Red Deer’s reply argument concerning distribution facility owner (DFO) and TFO gross assets. Red Deer responded to the CCA claims on April 29, 2015.

18. For purposes of this decision, the Commission considers the record for this proceeding closed on April 29, 2015.

19. 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  Compliance with previous decisions


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21. With respect to Decision 2013-073, Red Deer stated it had previously complied with directions 1-4, 6 and 11 in its compliance filing, which was decided in Decision 2013-214. In this application, Red Deer provided responses to outstanding directions 5, 7 and 8-10 inclusive from Decision 2013-073.

22. Red Deer indicated that it will respond to Direction 5 (salvage value of new building) when it files its next depreciation study.

23. For Direction 7 from Decision 2013-073 the following comments regarding the civic yards building provide background:

100. The Commission indicated at paragraph 46 in Decision 2009-264 that any future sale, lease, mortgage, disposition or encumbrance of the now retired civic yards building and lands may require prior approval of the Commission in accordance with Section 101 of the Public Utilities Act, RSA 2000, c. P-45. In the compliance filing to that decision, the Commission in Decision 2010-352 noted at paragraph 17 that Red Deer had affirmed at that time, the properties were currently vacant and that City council had not approved any specific action related to the properties. To date, the Commission has not been notified of any subsequent changes in respect of the civic yards property and reminds Red Deer of its obligation to file such information should the noted conditions arise.

And:

106. The Commission further directs Red Deer provide to the Commission in its next GTA, an update with respect to the previously retired civic yards building and land properties referenced in Decision 2009-264 and Decision 2010-352.

24. Further, Decision 2010-352 stated:

15. RD confirmed that EL&P, Public Works, Environmental Services, Transit and the Parks Department, had participated in the relocation to the Three Mile Bend location. In respect of relocating to the new Civic Yards, RD clarified that EL&P was allocated a 13 percent share of the Civic Yards capital cost based predominantly on square footage. Moreover, RD included a detailed allocation worksheet that was used by the City to allocate the full capital cost (including moving costs) of the Civic Yards project. RD confirmed that the allocation of EL&P’s Civic Yards costs between the TFO and the Distribution Facilities Operator (DFO) was based on the number of full time equivalents (FTEs).

16. RD submitted that, absent the opportunity to cost share with other departments, EL&P might have enjoyed the benefit of additional time to address the deficiencies with the Riverlands location. “However, given the urgent need and immediate economic benefits for other municipal departments to take action immediately, EL&P’s best and lowest long-run cost option was to participate with the other departments in an orderly transition to the Three Mile Bend location.”

17. As to the City’s intentions for assets retired from EL&P’s rate base, RD affirmed that the properties are currently vacant and that City Council had not approved any specific action other than the general development plans as provided in the appendix to its Refiling Application. In conclusion, Red Deer submitted that it had proven that TFO customers benefit from EL&P’s relocation to the new Civic Yards location, the former EL&P facilities are not required for utility service and the “appropriate and traditional
treatment is to remove these assets from rate base at original cost and to perform any necessary reconciliations in a future depreciation study.”

25. Regarding the status of the Riverlands building (Direction 7), Red Deer stated the building was demolished and the land was being held in the City of Red Deer’s land bank for future development. The transfer to the land bank was at book value. Red Deer also noted that Section 101 of the Public Utilities Act (PUA), RSA 2000, c. P-45 did not apply to Red Deer, as Red Deer is not a designated owner of a public utility and asked to be relieved of this direction.

26. Red Deer advised the Commission that it has complied with Direction 8 (business cases for projects exceeding $100,000), Direction 9 (allocation of IT costs) and Direction 10 (reconciliation of return on equity (ROE) deferral account).

27. Direction 1 of Decision 2013-214 required Red Deer to provide schedules showing Red Deer’s depreciation calculations in future TFO applications. Red Deer provided minimum filing requirement (MFR) depreciation schedules 6-1, 6-2, 6-3, and 6-4 in Excel format in Exhibit 0002.RD-3599.

28. With respect to Decision 2013-417, Red Deer confirmed that all transmission assets in rate base are in use, or are required to be used.

29. Decision 2005-149 required Red Deer to observe certain requirements in the event of any future withdrawal from the Self-Insurance Reserve (SIR) account arising from a consequential damage claim. In this application, Red Deer stated it is not proposing any consequential damage claim withdrawals from the SIR account and requested Commission relief of the obligation to provide updates on the SIR account unless Red Deer is proposing to make a withdrawal.

Commission findings

30. The Commission has reviewed Red Deer’s responses to outstanding Commission directions and is satisfied that Red Deer has complied with those directions. The Commission notes that Direction 5 from Decision 2013-073 will remain outstanding until Red Deer files its next depreciation study and demonstrates compliance.

31. The Commission grants the relief requested by Red Deer regarding Direction 7 of Decision 2013-073, as the Commission is satisfied by Red Deer’s submission that it is not a designated owner of a public utility as determined by the PUA. Relief is also granted regarding the outstanding direction from Decision 2005-149, and with respect to the direction from Decision 2005-149 required Red Deer to observe certain requirements in the event of any future withdrawal from the SIR account arising from a consequential damage claim. Red Deer has stated that no withdrawals for the SIR account are planned. Therefore, Red Deer, on a go-forward basis, is granted the relief that it is to only provide updates on the SIR account when it is proposing to make a withdrawal.

3 Issues

32. The following sections address issues or concerns raised by interveners or identified by the Commission in this proceeding and sets out the Commission’s determinations on those issues.
3.1 Inflation

33. Red Deer provided the following table to illustrate the inflation assumptions for the application:

<table>
<thead>
<tr>
<th>Table 1. Red Deer inflation assumptions (%)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary &amp; wages, union</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Salary &amp; wages, non-union</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Materials</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Contractors</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>General-other</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

34. In response to RD-AUC-2015FEB05-002, Red Deer stated:

Red Deer’s inflation factors are selected by utility personnel who have direct experience with expenses that affect the utility. In turn, they understand what affects those prices, and how the process change over time. The inflation drivers that impact the TFO are not entirely the same as those that affect the economy province wide (please see RD-AUC-2015FEB05-004c for a more complete discussion of RD’s inflation drivers), so RD does not rely on economic forecast reports, etc. to determine inflation factors. That said, escalation factors proposed by ENMAX in its 2014-2015 TFO General Tariff Application (application No. 1609784) and the CPI in Government of Alberta 2014-2015 First Quarter Update-Economic Outlook report (August 27, 2014) were looked at as comparators to provide assurance on the overall reasonableness and prudence of the 2015-2017 inflation factors.6

35. Red Deer further added in response to RD-AUC-2015FEB05-004(c):

A more important factor affecting labour expenses is the City’s labour agreement with IBEW [International Brotherhood of Electrical Workers]. Negotiated IBEW wage increases are greatly influenced by agreements for larger and privately owned electric utilities, which are typically finalized before any negotiations begin with the City. On January 5, 2015, the City of Red Deer announced that an agreement on a labour contract had been reached with IBEW for 2015 and 2016. Because the agreed upon 3.5% wage adjustment for each year represents base salary increases and does not include step increases, RD considers the applied for 4.0% inflation factor to be reasonable.

36. Red Deer submitted that the IBEW agreements influence other internal labour costs and was uncertain of the extent that reduced construction demand from the oil and gas sector could affect contractor prices.

37. The CCA stated in its final argument that this proceeding “… unlike RD’s past GTA proceedings, is being tested at a time of major re-adjustments in the Alberta economy” and “it is general knowledge that professional and engineering personnel are being laid off due to cuts in new oil sands projects.” The CCA added “… it would be naïve to assume that wages and salary increases as well as contract cost increases for professional and engineering personnel within the utility sector would remain untouched by changes in the supply and demand equation for such

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6 Exhibit 3599-X0006, PDF page 5.
personnel as a result of the post 2014 oil price decline and the consequent impact on oil sands activity.”

38. The CCA proposed the following options to the Commission:

   (i) Negotiated labour agreements with IBEW (3.5 per cent) should be included in the revenue requirement (0.5 per cent), while step increases should be considered part of base salary and should be disallowed.

   (ii) Contractor costs that have been contractually determined should be included in the revenue requirement.

   (iii) For non-union inflation increases and contractor cost increase that are not governed by applicable contract escalations, the most recent Conference Board of Canada forecast of Alberta Average Wages and Salary Increase per employee for each of the 2015-2017 years may be used. Similarly, materials and general-other cost increases may be based on the most recent Conference Board of Canada forecast of the consumer price index (CPI), which the Commission could have Red Deer provide as part of its compliance filing.

   (iv) A separate module to consider evidence on inflation factors should be initiated as part of the current proceeding.

39. In its reply argument, Red Deer submitted that no party disputed its evidence of the factors that affect inflationary cost increases for its TFO operations. Red Deer added that the CCA request for a separate module on inflationary evidence would amount to retroactive ratemaking, and given that both the CCA and Red Deer agree that any changes are likely immaterial, the regulatory expense for such a proceeding is not justified. Finally, Red Deer disagreed with the CCA claim that step increases should be considered part of base salary. Red Deer noted that for forecast purposes, it applies an inflation factor to the previous year’s expense. No other adjustments to base salary occur.

**Commission findings**

40. In responding to RD-AUC-2015FEB05-008, RD stated “… that no form of vacancy rate was attributed to other full-time equivalents (FTEs) over the test years,” because the group is small, has little turnover, and many long-service employees.

41. Given Red Deer’s evidence that the TFO group has little turnover and many long-service employees, the Commission questions the validity of estimating step function cost increases for the group. Red Deer did not provide any evidence on the number of employees affected, the percentage of total employees affected, the percentage impact of the step increases to the wages of the impacted employees, or the impact of the step increases on total wages.
42. The only evidence on the suitability of a step function approach before the Commission is Red Deer’s response to RD-AUC-2015FEB05-004(c) which states, in part:

   Because the agreed 3.5% wage adjustments for each year represents base salary increases and does not include step increases, RD considers the applied for 4.0% inflation factor to be reasonable.7

43. In addition, Red Deer has not justified the forecast 0.5 per cent inflationary increase for union employees. Accordingly, the Commission considers that the adjustment for step increases should be greater than the zero per cent recommended by the CCA, but given that Red Deer has many long-service employees, it should not be as large as the 0.5 per cent increase suggested by Red Deer.

44. As a result the Commission will use 0.25 per cent to represent step increases and will approve an overall inflationary increase of 3.75 per cent for union employees. Red Deer is to reflect this change in its compliance filing.

45. The Commission finds the inflation rate of 3.0 per cent for non-union employees, 2.5 per cent for materials, and 2.5 per cent for general-other submitted by Red Deer to be reasonable and approves the amounts derived from the use of those inflation rates.

46. Although the CCA did not provide any evidence on inflationary factors, the Commission took note of the CCA arguments on the current readjustments occurring in the Alberta economy. Further, although Red Deer referenced ENMAX Proceeding 2739 and the Consumer Price Index (CPI) in the Government of Alberta 2014-2015 First Quarter Update-Economic Outlook report (August 27, 2014) as comparators, Red Deer did state in response to RD-AUC-2015FEB05-005(c) that it does not consider the report to be directly applicable to the tariff application.

47. The Commission cannot ignore current economic conditions even if evidence on these conditions is not brought forward by either the applicant or the intervener. Red Deer has not relied on any external economic forecasts for inflation. It appears unreasonable to the Commission to allow contractor inflation rates that exceed the rates for Red Deer employees. The recently signed agreement with the International Brotherhood of Electrical Workers (IBEW), which set escalation rates at 3.5 per cent and is the latest and best arm’s-length evidence for inflation, is reasonably applicable to contractors for maintenance work. The Commission therefore approves a contractor escalation rate equal to that approved for Red Deer’s union employees, an increase of 3.5 per cent, which does not include a step increase. Red Deer is to reflect this change in its compliance filing.

3.2 Full-time equivalents and vacancy rate

48. Red Deer stated in responses to RD-AUC-2015FEB05-008, that no form of vacancy rate was attributed to other full-time equivalents (FTEs) over the test years. Red Deer later added that, “to the extent that vacancies can occur, the labour is often backfilled by overtime and distribution FTEs.”

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7 Exhibit 3599-X0006, PDF page 8.
Commission findings

49. In paragraph 56 of the application, Red Deer noted that the Safety Coordinator position originally forecast to be filled in 2012 was not filled until 2014 and was then vacated again shortly thereafter. In 2012, the new Electrical Technologist position was filled in June instead of January. In 2013 and 2014, the Market Support Specialist position was vacant. The positions are shown in Table 6 of page 24 of the application.

50. In response to RD-CCA-2015FEB05-002(a), regarding the Market Support Specialist position, Red Deer stated:

The department has been facing a number of pressing HR issues. Safety coordinator recruitment (as noted above) and a significant number of pending retirement/succession issues have demanded the department’s immediate attention to ensure that our core business (DFO) is not negatively impacted.

51. In response to RD-AUC-2015FEB05-014(c), Red Deer stated that increases in labour costs for Account 566 are “… representative of inflation except between 2012 and 2013; and between 2014 update and 2015 forecast.” RD added that the observed increase between 2012 and 2013 occurred because one of the administrative positions was vacant for seven months in 2012 and vacant for three months in 2013.

52. Table 6 in the application (Engineering and Supervision) lists 16 positions (15, if the market support position is excluded). Only three of those positions charge 100 per cent of their time to transmission. The remainder divide their time between the TFO and DFO functions.

53. Based on the above, the Commission concludes that Red Deer undergoes periods where vacant positions exist. It is also clear from the shared positions highlighted in Table 6 that the number of pending retirements that may affect Red Deer’s core business (DFO) will similarly affect the TFO business. The Commission considers that the application of a vacancy rate is warranted. Historically, Red Deer has not provided such a rate, and given the evidence of RD, the vacancy rate should be low. The Commission finds that a vacancy rate of 1.0 per cent is reasonable. The Commission directs Red Deer to use a vacancy rate of 1.0 per cent to reflect vacancies in its compliance filing.

3.3 Property taxes

54. In tables 19 and 20 of the application, RD provided actual and forecast municipal taxes. Table 2 recreates this information.

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax payable</td>
<td>168</td>
<td>175</td>
<td>199</td>
<td>210</td>
<td>284</td>
<td>299</td>
</tr>
</tbody>
</table>

55. Red Deer noted that part of the increase in the 2014 actual property taxes related to equipment upgrades at substations S14 and S15. In general, the property tax forecast is developed in consultation with the property tax department of the City of Red Deer. The property taxes are for the three existing substations and the civic yards and are calculated by taking the
2014 actual property taxes and applying the average property tax increase from the period 2011 to 2014 (a rate of 5.7 per cent as shown in response to RD-AUC-2015FEB05-003).

56. Red Deer expects an increase in property taxes starting in 2016 because of substation 209S coming into service. The property tax for this additional substation was based on the average property tax of the three existing substations.

Commission findings

57. The Commission notes from Table 2 above that the two largest increases in property taxes, $24,000 from 2013 to 2014, and $74,000 from 2015 to 2016, occurred when there were some changes to the property. For example, there were equipment upgrades at substations S14 and S15 in 2014, and new substation 209S is expected to be in service in 2016.

58. The response to RD-AUC-2015FEB05-003 showed the property taxes for the three existing substations and derived a compounded annual increase in property taxes of 5.70 per cent. However, the compound increase includes increases related to substation upgrades and therefore provides a “higher than inflationary” rate of increase. The escalation used for property taxes (outside of property additions) is inconsistent with the inflationary escalators proposed by Red Deer and approved by the Commission earlier in this section.

59. In Table 5 of Decision 2013-073, for the period 2006 to 2011, Red Deer’s property taxes showed an annual compound growth rate of 4.0 per cent. However, the table did not indicate whether changes in property taxes were caused by property upgrades or inflationary trends. Consequently, the Commission directs Red Deer to use a compounded inflationary escalator for property taxes of four per cent for each of the years 2015-2017, inclusively. In addition, Red Deer must further adjust the 2016 property taxes for the addition of substation 209S.

3.4 Transmission operating costs

60. Based on information requests from the Commission and the CCA, Red Deer removed letter of credit fees erroneously charged to the TFO, transformer oil processing for 2017, and the Market Support Specialist position from the tariff application.

Commission findings

61. Based on the changes provided by Red Deer in response to IRs, and subject to the changes directed by the Commission in other sections of this decision, the Commission finds the transmission operating costs filed by Red Deer to be reasonable.

3.5 Depreciation and contributions

62. Red Deer provided schedules showing historical additions and retirements, current-year plant balances, depreciation rates, and annual depreciation expense for the 2015-17 period. A summary of Red Deer’s applied-for depreciation expense is provided below.

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9 Exhibit 3599-X0006, RD-AUC-2015FEB05-001.
10 Exhibit 3599-X0006, RD-AUC-2015FEB05-012.
11 Exhibit 3599-X0008, RD-CCA-2015FEB05-002(a).
63. Red Deer’s application added two new items to its calculation of depreciation expense which have not been included in previous applications: depreciation for towers and fixtures and overhead conductors, and amortization of contributions.¹³

### 3.5.1 Depreciation

64. A depreciation study was not undertaken by Red Deer in connection with this application, and it did not own transmission lines at the time its last depreciation study was updated by Gannett Fleming in 2011. Red Deer is forecast to construct 1.6 kilometres of transmission lines in 2016. Red Deer has applied the same depreciation rate of 3.26 per cent to its towers and fixtures and overhead conductors that was used in the City of Lethbridge’s depreciation study filed in Lethbridge’s 2012-14 GTA.

65. Red Deer stated that starting with its next depreciation study to be conducted in 2017, it plans to update depreciation rates every six years. It proposes to true-up any variance between the estimated depreciation rate of 3.26 per cent used for transmission lines and the rate determined following completion of its next depreciation study.¹⁵

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¹² Exhibit 0001.00.RD-3599, page 39.
¹³ Exhibit 0001.00.RD-3599, page 39, paragraphs 82 and 84.
¹⁴ Exhibit 0001.00.RD-3599, page 39, paragraph 82.
¹⁵ Exhibit 0001.00.RD-3599, page 39, paragraph 83.
Red Deer also adjusted the Depreciation Gross Provision – Net Salvage amounts shown in Schedule 6-2, line 12. These were identified through responses to IRs from the Commission and the CCA, but did not impact the revenue requirement calculation.  

In an information request, the Commission asked Red Deer to identify and compare the towers and fixtures and overhead conductors depreciation rate used by ENMAX and EPCOR with its suggested rate of 3.26 per cent, and explain why its forecast was more appropriate.  

Red Deer argued that 3.26 per cent was the more appropriate rate for the following reasons.  

(i) The rate was taken from a comparable utility (Lethbridge), and from a study that was completed by a depreciation expert.  

(ii) It took into account Lethbridge’s recent experience with expected service life (45-50 years) and a peer group’s recent experience with net salvage (-40 per cent).  

(iii) The Lethbridge composite depreciation rate is not skewed by an over-representation of relatively old assets. Two thirds of the assets included in Lethbridge’s depreciation study are of relatively recent vintage, making it a reasonable proxy to use for Red Deer’s newly constructed transmission lines.  

Commission findings  

The Commission agrees with Red Deer that Lethbridge’s depreciation rates are more reflective of Red Deer’s assets than those of ENMAX or EPCOR and consequently approves Red Deer’s depreciation and net salvage rates for towers and fixtures and overhead conductors.  

3.5.2 Contributions  

In reviewing Red Deer’s tariff application, the Commission identified two issues for which it sought further clarification. First, it sought a better understanding of the reason Red Deer used a weighted average amortization for all years in which a contribution was recognized when it was clear that the weighting of actual asset contributions in 2014 was different than the weighting of forecast asset contributions in 2016 (when Red Deer expects to complete the 209S substation project and recognize the contribution). Second, the Commission sought clarification on the timing and recognition of contributions for the 209S substation project.  

Contributions are associated with the S15 breaker addition project (2014) and the addition of the substation 209S project (2016). The weighted average deprecation rate for these two direct-assigned projects was used as the amortization rate for contributions for all years over which contributions in respect of either project were amortized.  

The Commission sought to understand the rationale for using the calculated weighted average contribution amortization starting in 2014, considering that the S15 breaker addition

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16 Exhibit 3599-X0006, cover letter.  
17 Exhibit 3599-X0006, RD-AUC-2015FEB05-015.  
18 Exhibit 3599-X0006, RD-AUC-2015FEB05-015.  
19 Exhibit 0001.00.RD-3599, page 39, paragraph 84.
project in 2014 had a different depreciation rate than what was used, and that it was the only asset amortizing a contribution in 2014. Red Deer responded as follows:20

RD understands that the generally accepted practice is to not assign or attribute no-cost capital to a particular asset class, just as there would be no attempt to assign different levels and costs of debt and equity to each asset class. While the 2014 contribution can be attributed specifically to two breakers, this is more of an exception than the rule. For instance, the 209S project involves multiple asset classes and the AESO’s calculated contribution is not attributed to any particular asset class. However, because the RD TFO rate base is almost entirely comprised of substations, RD considered it appropriate to amortize all contributions by the weighted average depreciation rate for all substation equipment. It should be noted that changing the contribution amortization rate from 3.51% to 3.33% would have a minimal impact on total depreciation cost, (about $100 increase in 2014 and $200 increase in 2015 depreciation expenses).

73. The second issue identified by the Commission related to when the contributions were to be recognized. With respect to the issue of recognition of construction contributions, the Commission asked Red Deer when construction contributions were expected to be received, and whether contributions have already been made towards the substation 209S project.

74. In its response Red Deer stated:21

… this particular situation, a construction contribution is not ‘received’ and cash is not exchanged. Because both the TFO and the DFO are the same municipal department of the City, the AESO contribution policy only affects ratemaking issues such as the relative portions of the total capital cost to be recorded in the respective TFO and DFO rate bases. Upon energization, the ‘system’ portion is added to the TFO rate base and an amount corresponding to the contribution is added to the DFO rate base. However, at all times during the design, construction, energization, and operation of 209S, the City is responsible for financing capital costs.

Commission findings

75. In its application, Red Deer has calculated Allowance for Funds Used During Construction (AFUDC) on a gross expenditures basis. Red Deer did not recognize the customer contribution obligation prior to the completion and in-service date of the S15 breaker addition project (2014) and the 209S project (2016).

76. For regulatory purposes, a customer contribution is to be accounted for as soon as it is confirmed that a contribution will be required for the project.22 Waiting until expenditures are capitalized before contributions are received effectively overstates the rate base (resulting from AFUDC), and does not recognize the obligation for a customer contribution. In light of Red Deer’s statement that cash is neither received nor exchanged between the TFO and DFO in this case, as they are part of the same municipal department, and owing to the fact that the City of Red Deer is responsible for all financing costs, it can reasonably be assumed that contributions from the Red Deer DFO have been recognized simultaneously with costs incurred by the TFO.

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20 Exhibit 3599-X0006, RD-AUC-2015FEB05-016.
21 Exhibit 3599-X0006, RD-AUC-2015FEB05-016 b) and c).
77. The Commission directs Red Deer, in its compliance filing, to adjust its recognition of contributions in its revenue requirement calculation, so that contributions are recognized from the start of construction and are accumulated as an offset to project expenditures for the purposes of calculating AFUDC. Red Deer is directed to update its contribution amortization rate using its existing calculation spreadsheet to reflect these changes in contribution recognition, and to also update and true up any changes to the contribution amortization rate that may result from its next depreciation study.

3.6 Cost of debt - Alberta Capital Finance Authority (ACFA) rate

78. Red Deer previously stated that it did not “… have a history of debt financing from which to calculate an appropriate embedded debt rate. In addressing this, it developed and used a proxy debt rate calculation, which was approved in its 2009-2011 filing.” [footnote removed]23 The proxy rate is calculated in the following way:

- For the test period, Red Deer used the July 1, 2014 ACFA rate of 2.925 per cent, in a manner it claims is consistent with application of the mid-year rate base convention. Red Deer provided calculations for the rolling averages displayed in Table 21 of their application, which resulted in a 15-year rolling average of 4.359 per cent, 4.137 per cent and 3.924 per cent for the test years 2015-2017.24 “Red Deer considers this method to be robust and cost effective because minor variances in the ACFA rate forecast do not translate into material impacts on the final tariff.” [footnote removed]25

79. The Commission requested further information on both the use of the 2.925 per cent value in light of the Bank of Canada’s January 21, 2015 cut to its benchmark rate, and the materiality of an interest rate change on Red Deer’s revenue requirement, generally.26

80. Red Deer stated that it did not expect any impact on ACFA rates due to the Bank of Canada’s decision to cut its benchmark lending rate to 0.75 per cent. It expects that borrowing costs would be more heavily influenced by how financial markets view the credit capacity of the Government of Alberta, and that this seems less likely to improve in a period of declining oil prices.27

81. Red Deer provided a recalculation of its 15-year rolling average debt rate based on Commission scenarios of an interest rate reduction of 0.5 per cent and 0.75 per cent.28 The resulting revenue requirement impact is shown below:

<table>
<thead>
<tr>
<th>Interest rate reduction of:</th>
<th>Recalculated debt rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>0.50%</td>
<td>4.326</td>
</tr>
<tr>
<td>0.75%</td>
<td>4.309</td>
</tr>
</tbody>
</table>

23 Exhibit 0001.00.RD-3599, page 43, paragraph 90.
24 Exhibit 0001.00.RD-3599, pages 43-44, paragraph 91.
25 Exhibit 0001.00.RD-3599, page 44, paragraph 93.
26 Exhibit 3599-X0006, RD-AUC-2015FEB05-017.
27 Exhibit 3599-X0006, RD-AUC-2015FEB05-017a.
28 Exhibit 3599-X0006, RD-AUC-2015FEB05-017b.
Interest rate reduction of: | Change in revenue requirement ($) |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>0.50%</td>
<td>2,200</td>
</tr>
<tr>
<td>0.75%</td>
<td>3,300</td>
</tr>
</tbody>
</table>

Commission findings

82. The ACFA 15-year rolling average rate between the date of Red Deer’s application and the close of record on April 29, 2015, was 2.031 per cent. The ACFA 15-year rolling average rate reached a low of 1.991 per cent on February 1, 2015, shortly after the Bank of Canada cut its benchmark rate on January 21, 2015. The last ACFA rate recorded before the close of record was 2.235 per cent on March 15, 2015.29

83. The Commission considers that the mid-year convention does not apply to interest rates, and only applies to the timing of debt issued. Therefore, the Commission directs Red Deer to use the most recent actual rate recorded by ACFA for the forecast years in determining the ACFA 15-year rolling average. For this application, Red Deer is to update its forecast proxy rate to 2.235 per cent for the 2015 to 2017 test-year periods to determine the ACFA 15-year rolling average rate and to use that revised rate in the calculation of Red Deer’s proxy debt financing cost.

3.7 Land purchase and substation 209S

3.7.1 Land

84. Red Deer purchased land for the construction of the new 209S substation at a cost of $927,750 which will be added into rate base in 2016.

85. The Commission requested further information from Red Deer on the purchase date and price, the identity of the seller of the land, and the basis upon which the land was valued.30

86. Although Red Deer paid $870,000 for the land, the purchase was divided into two transactions. Red Deer paid $573,000 from a private owner at market rates on October 30, 2013, and in a second transaction on October 31, 2014, Red Deer purchased an adjacent parcel from the City of Red Deer’s Land Bank for $297,000, a market rate calculated by the City of Red Deer’s Land and Economic Development Department. Red Deer explained that the GTA forecast cost of $927,750 for substation land (based on CCD1-stage 4 Proposal to Provide Service (PPS)) is composed of $914,750 paid by Red Deer for land costs plus an additional $13,000 paid by AltaLink for land easement and damage claims.31

87. The Commission requested further information regarding the transactions involved in purchasing the land from the City of Red Deer. The information requested related to the City of

29 Alberta Capital Finance Authority Indicative Interest Rates.
30 Exhibit 3599-X0006, RD-AUC-2015FEB05-019b.
31 Exhibit 3599-X0006, RD-AUC-2015FEB05-019b.
Red Deer’s original acquisition cost of the land, the type of rights that were transferred, and the accounting standards that were followed.\textsuperscript{32}

88. In response to the Commission’s follow-up IR, Red Deer provided additional information regarding the purchase of land from the City of Red Deer itself. The City of Red Deer’s Land Bank purchased the quarter section in November of 2006 for the purpose of future residential development. Its EL&P acquired both legal and beneficial ownership of the required area and, as per council policy, the land bank sold the land to the EL&P department at market value. Red Deer used accounting principle PSAB 3150, paragraph 5, which defined costs in this circumstance as the purchase price. Red Deer further confirmed that its financials are independently audited and have been found to be in accordance with all applicable accounting standards, including PSAB.\textsuperscript{1}\textsuperscript{33}

3.7.2 Substation 209S

89. In argument, the CCA questioned why the cost of the AltaLink portion of the project, estimated to be $2.679 million, is also being proposed for inclusion in the total capital additions for the Red Deer TFO in 2016. The CCA stated that if ownership of the AltaLink portion of the project resides with AltaLink, the $2.679 million should not be included in the 2016 capital additions for Red Deer; rather the $2.679 million should appear in AltaLink’s books.\textsuperscript{34}

90. The CCA further stated that since the proposal to provide service was issued to AltaLink, AltaLink would be the owner of the capital addition. It recommended that Red Deer be directed to remove the amount of the AltaLink capital addition from the proposed 2016 rate base additions, if, in fact, it was added in error.\textsuperscript{35}

91. In reply argument, Red Deer responded as follows:\textsuperscript{36}

In reviewing our response to that information request, RD can understand that the text was not necessarily clear that the “customer” in this case is the EL&P DFO. While it is correct that a contribution paid by the City to AltaLink should be recorded as a DFO asset, the AESO’s Stage 4 CCD1[footnote removed] is not clear on what this amount should be. Nevertheless, this is a moot issue because all that matters for the immediate purpose of ratemaking is that a net amount equal to the maximum investment is added to the TFO rate base. The AESO maximum investment of $6,473,000 is all that is to be paid for by the transmission system and this is the net amount that RD has added to rate base for 2016. Subject to finalizing the accounting for this project in RD’s next tariff application, RD will be in a better position to record the proper gross amount on the TFO books.

Commission findings

92. The Commission is satisfied with the explanation of the land transfer process given in Red Deer’s response and finds that the land was appropriately valued at market rates through the land bank and in a manner that is compliant with Public Sector Accounting Board standards.

\textsuperscript{32} Exhibit 3599-X0016, RD-AUC-2015MAR02-001.
\textsuperscript{33} Exhibit 3599-X0016, RD-AUC-2015MAR02-001.
\textsuperscript{34} Exhibit 3599-X0024, page 13, paragraph 39.
\textsuperscript{35} Exhibit 3599-X0024, page 13, paragraph 40.
\textsuperscript{36} Exhibit 3599-X0025, page 8, paragraph 24.
Consequently, the Commission approves the market value used in connection with the acquisition cost of land for the purposes of the 209S substation project. Red Deer acquired the land at market rates from a third-party vendor for one parcel and at market rates for the second parcel from the city’s land bank (in accordance with city policy). When Red Deer removed the land relating to the previous civic yards, there was no transaction at the time, but as that land was no longer required for regulatory purposes, it was removed from rate base at its book value. Red Deer’s subsequent disposition of the land once it was outside of rate base has no bearing on the determination of just and reasonable rates in this application.

93. If ownership of the AltaLink portion of the project resides with AltaLink, the $2.679 million should not be included in the 2016 capital additions for Red Deer, as argued by the CCA. In its compliance filing, Red Deer is to confirm that the AltaLink portion of the project is not included in Red Deer’s costs for substation 209S. If Red Deer cannot confirm this, it must, in its compliance filing to this decision, remove the $2.679 million from the substation cost estimate, the $13,000 related to land costs, and all AFUDC amounts pertaining to AltaLink’s portion of the 209S project from rate base. The 209S project is subject to deferral treatment.

Allocations

94. Red Deer explained that as an integrated TFO and DFO, its TFO tariff include some operating expenses that are common to both functions and must consequently be allocated. Red Deer proposed to continue using the allocation methods first approved in Decision 2005-149.37

95. Red Deer’s application showed that although the methodology for transmission allocation calculation has not changed, most transmission allocation factors for 2012-2014 have increased. For example, Red Deer submitted that the increase in the transmission allocation for “Gross Asset” identified at paragraph 189 of the application is due to asset additions, and especially for the addition of substation 209S which has a value of $6.7 million (net of contributions). Likewise, Red Deer submitted that the need for equipment replacements/upgrades, for testing and monitoring procedures to ensure reliability of the transmission system, and for the addition of transmission assets have resulted in more staff being allocated to the TFO function and this increased transmission work has, in turn, resulted in an increase to the transmission FTE factor for the 2015-2017 forecast period.38 A summary of the TFO/DFO common allocators is provided below:

Table 3. Summary of TFO/DFO common allocators(%)  

<table>
<thead>
<tr>
<th>Allocation method</th>
<th>Transmission</th>
<th>Distribution</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE, total</td>
<td>18.5</td>
<td>81.5</td>
<td>100</td>
</tr>
<tr>
<td>FTE, office</td>
<td>33.0</td>
<td>67.0</td>
<td>100</td>
</tr>
<tr>
<td>FTE, field</td>
<td>4.1</td>
<td>95.9</td>
<td>100</td>
</tr>
<tr>
<td>Gross assets</td>
<td>17.1</td>
<td>82.9</td>
<td>100</td>
</tr>
<tr>
<td>All other, G&amp;A</td>
<td>24.5</td>
<td>75.5</td>
<td>100</td>
</tr>
<tr>
<td>All other, corporate</td>
<td>23.8</td>
<td>76.2</td>
<td>100</td>
</tr>
</tbody>
</table>

38 Exhibit 0001.00.RD-3599, Application, PDF page 88.
Commission findings

96. Subject to the factor-specific issues identified below, the Commission finds that Red Deer’s continued use of the allocation methodology originally approved in Decision 2005-149 is reasonable in the circumstances. However, the Commission directs Red Deer, in its next GTA, to provide detailed costing under each section of its application in order to demonstrate a clear understanding of the cost drivers, costs allocators, and the means to better reconcile the costs under each section of the application with Red Deer’s MFR schedules.

3.7.3 Use of 2016 forecast data for TFO cost allocators

97. In response to Red Deer-AUC-2015FEB05-28.5(g), Red Deer explained that it uses forecast allocators because there is a closer match between the vintage of the allocator and the vintage of the expense, resulting in little difference between using a forecast 2016 allocator and a 2014 actual. However, Red Deer argued that using the most recent 2014 actual in respect of the 209S addition would be unreasonable because of material changes to the relative proportions of TFO and DFO assets caused by the 2016 addition. In a response to an IR, Red Deer provided a comparison of the TFO allocators using 2016 forecast inputs versus 2014 actuals, along with the impact on revenue requirement.39

Table 4. TFO cost allocators

<table>
<thead>
<tr>
<th>TFO cost allocators</th>
<th>Based on 2016 forecast</th>
<th>Based on 2014 actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE</td>
<td>18.5%</td>
<td>18.2%</td>
</tr>
<tr>
<td>FTE, office</td>
<td>33.0%</td>
<td>32.0%</td>
</tr>
<tr>
<td>FTE, field</td>
<td>4.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Gross assets</td>
<td>17.1%</td>
<td>20.0%</td>
</tr>
<tr>
<td>All other, G&amp;A</td>
<td>24.5%</td>
<td>22.0%</td>
</tr>
<tr>
<td>All other, corporate</td>
<td>23.8%</td>
<td>22.9%</td>
</tr>
</tbody>
</table>

Table 5. Revenue requirement impact using 2014 allocators

<table>
<thead>
<tr>
<th>Revenue requirement ($000s)</th>
<th>2015 forecast</th>
<th>2016 forecast</th>
<th>2017 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating costs</td>
<td>2,405.8</td>
<td>2,597.8</td>
<td>2,836.2</td>
</tr>
<tr>
<td>Depreciation</td>
<td>622.9</td>
<td>729.4</td>
<td>834.2</td>
</tr>
<tr>
<td>Return on rate base</td>
<td>635.3</td>
<td>811.0</td>
<td>976.5</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Deferral &amp; reserve accounts</td>
<td>5.8</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total costs (recalculated)</strong></td>
<td><strong>3,669.7</strong></td>
<td><strong>4,138.1</strong></td>
<td><strong>4,646.9</strong></td>
</tr>
<tr>
<td>Total costs in submitted GTA</td>
<td>3,661.4</td>
<td>4,130.0</td>
<td>4,638.9</td>
</tr>
<tr>
<td><strong>Variance</strong></td>
<td>8.3</td>
<td>8.1</td>
<td>8.0</td>
</tr>
</tbody>
</table>

*All else equal, the calculated variance does not include the impact of revisions to the GTA as noted in the cover letter related to February 19, 2015 submission - 3599-X0006, RD response to AUC IRs.

Commission findings

98. Based on the information set out in the table above, the Commission notes that the impact of changing from forecast to actual information does not appear to be material. However, the Commission considers that, as a general proposition, using 2014 actual information is more reliable than using forecast inputs that may be subject to forecasting errors or other unforeseen factors. The Commission finds its determination in this regard to be consistent with its findings in Decision 2013-111, where it held that:

The Commission considers that the continued use of data from the audited financial statements from two years prior is reasonable. The use of actual audited data prevents any forecasting errors with respect to the inputs to be used, and provides a reliable data source.\(^40\)

99. Red Deer is therefore directed to refile its corporate costs based on 2014 actual allocators and provide a detailed explanation of any changes to its forecast revenue requirement in its compliance filing.

3.7.4 Corporate costs allocated to TFO – Account 930.2

100. The CCA noted that Red Deer had included, under municipal corporate costs in Account 930.2, the TFO’s share or allocation of compensation amounts for Mayor, City Manager, Legislative Services and City Council for the years 2013 to 2017. In response to RD-AUC-2015FEB05-025, Red Deer explained that corporate costs are allocated to the City’s departments based on their approved operating budgets in proportion to the total city budget. The table below provides the costs in Account 930.2 allocated to the TFO for municipal corporate costs related to Mayor, City Manager, Legislative Services and City Council.\(^41\)

\(^{41}\) Exhibit 3599-X0024, Calgary argument, PDF page 7.
Table 6.  Miscellaneous general expenses Account 930.2 ($000)\textsuperscript{42}  

<table>
<thead>
<tr>
<th>Compensation</th>
<th>2013</th>
<th>2014UD</th>
<th>2015F</th>
<th>2016F</th>
<th>2017F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor and City Manager</td>
<td>181.8</td>
<td>215.3</td>
<td>252.1</td>
<td>258.4</td>
<td>264.8</td>
</tr>
<tr>
<td>City Clerk and Council</td>
<td>214.3</td>
<td>288.2</td>
<td>300.4</td>
<td>308</td>
<td>315.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Compensation - year over year increase</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor and City Manager</td>
<td>18.4%</td>
<td>17.1%</td>
<td>2.5%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>City Clerk and Council</td>
<td>34.5%</td>
<td>4.2%</td>
<td>2.5%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>Allocation percent to TFO</td>
<td>25.0%</td>
<td>25.0%</td>
<td>23.4%</td>
<td>23.4%</td>
<td>23.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate costs allocated to TFO</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor and City Manager</td>
<td>45.4</td>
<td>53.7</td>
<td>59.0</td>
<td>60.5</td>
<td>62.0</td>
</tr>
<tr>
<td>City Clerk and Council</td>
<td>53.5</td>
<td>71.9</td>
<td>70.4</td>
<td>72.1</td>
<td>73.9</td>
</tr>
<tr>
<td>Subtotal</td>
<td>98.9</td>
<td>125.7</td>
<td>129.4</td>
<td>132.7</td>
<td>136.0</td>
</tr>
</tbody>
</table>

Source: Exhibit 3599-X0007; Index Table 2.

101.  The CCA argued that Red Deer failed to adequately justify the identified increase in compensation for Mayor, City Manager, Legislative Services and City Council of approximately 40 per cent over the two years 2014 and 2015 relative to 2013. It submitted that Red Deer has therefore not provided justification for the requested increases in corporate compensation costs.

102.  The CCA argued that Red Deer has not demonstrated that it has done proper due diligence before bringing forward the proposed corporate compensation increases in 2014 and 2015. Accordingly, the CCA recommended that the corporate cost increases under Account 930.2 be limited to the rate of inflation for 2014 and 2015. This means the corporate cost forecasts for 2015, 2016 and 2017 would require corresponding adjustments to remove the impact of the approximately 40 per cent increase in 2014 and 2015.\textsuperscript{43}

103.  The CCA also argued that historical delays in hiring the safety coordinator (three-year delay relative to 2012-2014 GTA forecast) and market specialist (two-year delay relative to 2012-2014 GTA forecast) are indicative of inadequate due diligence work on Red Deer’s part when developing its forecasts.\textsuperscript{44} The CCA further asserted that Red Deer has a record of inaccurate forecasting, which has resulted in Red Deer earning unwarranted high returns on common equity of 19.27 per cent in 2013 and 15.49 per cent in 2014.

104.  Red Deer noted that the impact of the CCA’s recommendation to limit the rate of increase to inflation for USA Account 930.2 is extremely small given that the impact of its forecast would be to increase USA 930.2 by less than $4,000 each year: 3.0 per cent in 2015 and 2.5 per cent in 2016 and 2017. Red Deer argued that reducing the 2014 cost is not within the purview of this 2015-2017 application, and provides only a comparative base for the reasonableness of the 2015-2017 forecast. In response to AUC-2015FEB05-025, Red Deer

\textsuperscript{42} Exhibit 3599-X0024, Calgary argument, PDF page 7.

\textsuperscript{43} Exhibit 3599-X0024, Calgary argument, PDF page 9.

\textsuperscript{44} Exhibit 3599-X0024, Calgary argument, PDF page 8.
explained that EL&P’s operating budget and allocations relative to other municipal departments have increased at a rate greater than inflation, but are consistent with the Alberta electric utility industry in general, and not indicative of a lack of due diligence.  

105. Red Deer submitted that the total amount forecast for Account 930.2 of approximately $135,000 per year is reasonable and includes costs for not only salaries and wages, but also office space, materials and supplies, and desktop computers associated with the offices of Mayor, City Manager, City Clerk, and Council. Red Deer also noted that the CCA-referenced 2013 cost for City Clerk and Council assigned to EL&P should be $237,100, not 214,300, which lessens the variance between 2013 actual and 2014 updated forecast.

106. Further, Red Deer argued that it has fully disclosed the reasons surrounding the delay in hiring a safety coordinator and a market specialist. The CCA has provided no evidence to support its claim that there is inadequate transparency of the upfront due diligence work. In Red Deer’s view, the CCA also failed to take into account that $48,155 of the surplus related to its return on equity for the previous two years is subject to deferral account reconciliation and is to be refunded in the following year.

107. Red Deer urged that because the CCA’s recommendation is unsubstantiated and the forecast costs in Account 930.2 are reasonable compared to the full cost of corporate governance of a stand-alone utility, the CCA recommendation should be rejected.

Commission findings

108. Although the CCA raised concerns with respect to the transparency and due diligence of costs included in USA Account 930.02, the Commission is not persuaded that there is any evidence to support the CCA’s assertions in this regard, or that a forecast annual increase of $4,000 per year, representing increases of 3.0 per cent in 2015 and 2.5 per cent for 2016 and 2017, is unreasonable. Any proposed adjustment to 2014 costs is outside the scope of this application. The CCA’s recommendations concerning allocations of corporate costs to the TFO are therefore rejected.

Gross asset allocator

109. Red Deer has not proposed to change the method of common cost allocation approved in Decision 2005-149. It explained that the observed increase in the gross asset allocator is due to asset additions, especially in relation to the addition of substation 209S.

110. The gross asset allocator used by Red Deer to allocate plant and FTE employees between the Red Deer TFO and EL&P’s distribution system (DFO) is described as follows:

The Gross Asset Allocator is required for expenses related to operating, servicing or maintaining transmission and distribution assets. The Gross Asset Allocator is based on gross transmission and distribution assets, before deducting accumulated depreciation and customer contributions. RD considers that work relating to assets should be in general proportions to total asset cost, but more specifically, a gross allocator is appropriate
because day-to-day operations have little regard for how the original cost of those assets is funded.\(^\text{49}\)

111. The CCA noted that the gross assets allocator is, by definition, calculated from the gross assets before accumulated depreciation and contributions; and further that Red Deer TFO and the distribution system (DFO) are part of EL&P but are considered separate entities for regulatory purposes. The CCA argued that the $17.872 million contribution paid by the DFO to the TFO with respect to the S209 project should be included in DFO gross assets used to allocate common assets and FTEs for regulatory purposes. Accordingly, it recommended that the contribution paid by the DFO with respect to the S209 project be recognized as an asset in the DFO gross assets balance for allocation of common costs and FTEs, for regulatory purposes.\(^\text{50}\)

112. Red Deer noted the CCA’s recommendation that the DFO’s contribution towards the Timberlands substation should be recognized as part of gross assets for the allocation of common costs. Red Deer argued that row 88 of tab “Gross Plant” in the tariff schedules\(^\text{51}\) shows that that contribution was taken into account and, furthermore, “Mid-year transmission gross plant” found in row 94 of the “Gross Plant” tab corresponds to Table 46 of the application\(^\text{52}\) and the calculation of the gross asset allocator. In Red Deer’s view, the contribution does not have a material effect on the gross asset allocator in this application because the allocator is based on mid-2016, in a manner consistent with the substation’s mid-2016 addition to rate base.\(^\text{53}\)

113. In reply argument, the CCA argued that the reference provided by Red Deer does not establish whether the contribution made by the DFO to the TFO was reflected in the DFO’s gross plant balance for purposes of allocation. Rather, Exhibit 3599-X0007, Gross Plant tab Row 88, shows only that the Red Deer TFO has netted the contribution received against the TFO asset. Consequently, the CCA argued that Red Deer has not adequately explained whether the contribution paid by the DFO to the TFO was included in the DFO gross plant for purposes of allocating common costs.\(^\text{54}\)

**Commission findings**

114. The Commission has reviewed the tariff schedules filed in Exhibit 3599-X0019 and is satisfied that the gross asset allocator has netted the DFO contributions from the rate base addition of substation 209S, resulting in gross assets of approximately $23.2 million. However, in Section 3.7.2 of this decision the Commission directed Red Deer to remove $2.679 million in 2016 capital additions and $13,000 related to land costs and all AFUDC amounts related to the portion of the substation owned by AltaLink. Red Deer is therefore directed to revise its gross asset allocator to reflect the finding from Section 3.7.2 in its compliance filing.

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\(^{49}\) Exhibit 3599-X0005, RD-AUC-2015FEB05-028.5, PDF page 51.

\(^{50}\) Exhibit 3599-X0024, Calgary argument, PDF pages 10-11.

\(^{51}\) Exhibit 3599-X0019.

\(^{52}\) Exhibit 3599-X0001.

\(^{53}\) Exhibit 3599-X0025, CCA reply argument.

\(^{54}\) Exhibit 3599-X0027, CCA reply argument.
4 Other matters

4.1 CCA recommendations

115. The CCA made the following recommendations in its argument:55

(a) The CCA recommends Red Deer give consideration to incorporating performance standards and accountability mechanisms designed to facilitate superior design, scheduling, cost and quality outcomes for the S209 project and future capital projects.

(b) The CCA recommends that budget to actual project cost variance explanations be provided in relation to the most up to date capital budget that was approved by top management prior to commencement of construction, when Red Deer applies for deferral adjustment of the costs associated with the S209 project, at the time of the next GTA.

(c) The CCA recommends explanations for budget to actual project cost variances be provided by tracking each of the risk events that resulted in material cost variances. Red Deer should demonstrate in a chronological manner, how the risk mitigation strategies were used to mitigate material cost variances arising from each risk event. Red Deer should also identify the lessons learnt from the past that are to be reflected in the planning and execution of future projects. These explanations should be provided at the time of the next GTA.

116. Most of these recommendations, however, were not introduced through IR or intervener evidence. The 209S project is a direct-assigned project subject to deferral treatment. Consequently, Red Deer, like all other TFOs, is required to demonstrate the prudence of its final costs. This could include testing of decision making, based on the best information at the time, to justify the level of cost. The Commission therefore directs Red Deer to incorporate CCA recommendations (b) and (c) when it demonstrates the prudence of its final costs of substation 209S in a future application.

4.2 Decision 2191-D01-2015 generic cost of capital (GCOC) compliance

117. In a letter dated March 24, 2015, Red Deer proposed to file tariff schedules updated for the impact of Decision 2191-D01-2015.56

118. Red Deer filed updated schedules on March 27, 2015,57 stating in its letter:58

The necessary changes have been made to tabs “Schd 3-1”, “Schd 28-1”, “Schd 28-2”, “ROE” and “AESO,” and are highlighted. The Commission will note that the retroactive impact of the modified ROE and equity structure on the tariff are calculated in the ROE tab. The AESO deferral account calculations do not require adjustment for 2013 and 2014 because the account is in surplus. The funds were collected from rate-payers at an ROE rate of 8.75%, and therefore should be returned to ratepayers at the same rate.

55 Exhibit 3599-X0024, page 17, paragraphs 53-55.
56 Exhibit 3599-X0017.
57 Exhibit 3599-X0019.
58 Exhibit 3599-X0020.
Red Deer submits that the changes to the MFR schedules and tariff calculation are straight-forward calculations which RD has sought to demonstrate as transparently as possible.

119. The Commission has reviewed the calculations Red Deer provided to compute the refund resulting from the lower equity thickness and ROE and has determined that further amendments are required. Red Deer is therefore directed to provide updated timing of contributions for project 209S and an updated AFUDC schedule for the impact of Decision 2191-D01-2015. It is also directed to reflect these AFUDC adjustments to the appropriate capital project balances on Schedule 10-4 in its compliance filing.

120. The Commission has also determined that Red Deer has not updated all schedules to reflect the new capital structure and ROE impacts, regardless of the materiality. Therefore, the Commission directs Red Deer in all future compliance filings to:

- resubmit its prior final approved forecast application schedules updated for any generic cost of capital decisions.
- provide the approved forecast in Schedule 28-1 - Schedule of Capital Structure and Average Cost of Capital, as a comparison to the actual results.
- separately identify the amount of AFUDC included in each project shown in Schedule 10-4 in its compliance filing and all future tariff applications, in the format set out in the table below:

<table>
<thead>
<tr>
<th>Project description</th>
<th>Opening WIP</th>
<th>Capital expenditures</th>
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<th>Capital add</th>
<th>CWIP</th>
</tr>
</thead>
</table>

This will allow for ease of reference for all parties regarding the continuity of schedules and information.
5 Order

121. It is hereby ordered that:

(1) Red Deer will provide a compliance filing to this application within 60 days of the release of this decision.

(2) Red Deer will continue to maintain and reconcile the following deferral accounts in its next application:

(i) return on equity
(ii) direct-assign capital
(iii) hearing cost reserve
(iv) self-insurance reserve

Dated on July 7, 2015.

Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Anne Michaud
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>
</tr>
</thead>
<tbody>
<tr>
<td>The City of Red Deer (Red Deer or RD)</td>
<td></td>
</tr>
<tr>
<td>Consumers’ Coalition of Alberta (CCA)</td>
<td></td>
</tr>
<tr>
<td>Alberta Electric System Operator (AESO)</td>
<td></td>
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</tbody>
</table>

**Alberta Utilities Commission**

**Commission panel**
- M. Kolesar, Vice-Chair
- A. Michaud, Commission Member
- B. Lyttle, Commission Member

**Commission staff**
- R. Finn (Commission counsel)
- D. Ward
- M. McJannet
- C. Strasser
Appendix 2 – Summary of Commission directions

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

1. Based on the above, the Commission concludes that Red Deer undergoes periods where vacant positions exist. It is also clear from the shared positions highlighted in Table 6 that the number of pending retirements that may affect Red Deer’s core business (DFO) will similarly affect the TFO business. The Commission considers that the application of a vacancy rate is warranted. Historically, Red Deer has not provided such a rate, and given the evidence of RD, the vacancy rate should be low. The Commission finds that a vacancy rate of 1.0 per cent is reasonable. The Commission directs Red Deer to use a vacancy rate of 1.0 per cent to reflect vacancies in its compliance filing.

2. In Table 5 of Decision 2013-073, for the period 2006 to 2011, Red Deer’s property taxes showed an annual compound growth rate of 4.0 per cent. However, the table did not indicate whether changes in property taxes were caused by property upgrades or inflationary trends. Consequently, the Commission directs Red Deer to use a compounded inflationary escalator for property taxes of four per cent for each of the years 2015-2017, inclusively. In addition, Red Deer must further adjust the 2016 property taxes for the addition of substation 209S.

3. The Commission directs Red Deer, in its compliance filing, to adjust its recognition of contributions in its revenue requirement calculation, so that contributions are recognized from the start of construction and are accumulated as an offset to project expenditures for the purposes of calculating AFUDC. Red Deer is directed to update its contribution amortization rate using its existing calculation spreadsheet to reflect these changes in contribution recognition, and to also update and true up any changes to the contribution amortization rate that may result from its next depreciation study.

4. The Commission considers that the mid-year convention does not apply to interest rates, and only applies to the timing of debt issued. Therefore, the Commission directs Red Deer to use the most recent actual rate recorded by ACFA for the forecast years in determining the ACFA 15-year rolling average. For this application, Red Deer is to update its forecast proxy rate to 2.235 per cent for the 2015 to 2017 test-year periods to determine the ACFA 15-year rolling average rate and to use that revised rate in the calculation of Red Deer’s proxy debt financing cost.

5. The CCA further stated that since the proposal to provide service was issued to AltaLink, AltaLink would be the owner of the capital addition. It recommended that Red Deer be directed to remove the amount of the AltaLink capital addition from the proposed 2016 rate base additions, if, in fact, it was added in error.

6. Subject to the factor-specific issues identified below, the Commission finds that Red Deer’s continued use of the allocation methodology originally approved in Decision 2005-149 is reasonable in the circumstances. However, the Commission directs Red Deer, in its next GTA, to provide detailed costing under each section of its application in order to demonstrate a clear understanding of the cost drivers, costs allocators, and the means to better reconcile the costs under each section of the application with Red Deer’s MFR schedules.
7. Red Deer is therefore directed to refile its corporate costs based on 2014 actual allocators and provide a detailed explanation of any changes to its forecast revenue requirement in its compliance filing. Paragraph 99

8. The Commission has reviewed the tariff schedules filed in Exhibit 3599-X0019 and is satisfied that the gross asset allocator has netted the DFO contributions from the rate base addition of substation 209S, resulting in gross assets of approximately $23.2 million. However, in Section 3.7.2 of this decision the Commission directed Red Deer to remove $2.679 million in 2016 capital additions and $13,000 related to land costs and all AFUDC amounts related to the portion of the substation owned by AltaLink. Red Deer is therefore directed to revise its gross asset allocator to reflect the finding from Section 3.7.2 in its compliance filing. Paragraph 114

9. Most of these recommendations, however, were not introduced through IR or intervener evidence. The 209S project is a direct-assigned project subject to deferral treatment. Consequently, Red Deer, like all other TFOs, is required to demonstrate the prudence of its final costs. This could include testing of decision making, based on the best information at the time, to justify the level of cost. The Commission therefore directs Red Deer to incorporate CCA recommendations (b) and (c) when it demonstrates the prudence of its final costs of substation 209S in a future application. Paragraph 116

10. The Commission has reviewed the calculations Red Deer provided to compute the refund resulting from the lower equity thickness and ROE and has determined that further amendments are required. Red Deer is therefore directed to provide updated timing of contributions for project 209S and an updated AFUDC schedule for the impact of Decision 2191-D01-2015. It is also directed to reflect these AFUDC adjustments to the appropriate capital project balances on Schedule 10-4 in its compliance filing. Paragraph 119

11. The Commission has also determined that Red Deer has not updated all schedules to reflect the new capital structure and ROE impacts, regardless of the materiality. Therefore, the Commission directs Red Deer in all future compliance filings to

- resubmit its prior final approved forecast application schedules updated for any generic cost of capital decisions.
- provide the approved forecast in Schedule 28-1 - Schedule of Capital Structure and Average Cost of Capital, as a comparison to the actual results.
- separately identify the amount of AFUDC included in each project shown in Schedule 10-4 in its compliance filing and all future tariff applications, in the format set out in the table below:

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This will allow for ease of reference for all parties regarding the continuity of schedules and information. Paragraph 120