



ATCO Electric Ltd.

**Extension of Manning Rural Electrification Association Ltd.
Transfer Date to ATCO Electric Ltd.**

April 5, 2013

The Alberta Utilities Commission

Decision 2013-132: ATCO Electric Ltd.

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Transfer Date to ATCO Electric Ltd.

Application No. 1609394

Proceeding ID No. 2506

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1 Introduction

1. ATCO Electric Ltd. (ATCO Electric), by Application 1608914, filed an application with the Alberta Utilities Commission (AUC or the Commission) under Section 32 of the *Hydro and Electric Energy Act RSA 2000 c. H-16*, on behalf of Manning Rural Electrification Association Ltd., for approval to discontinue the operation of the Manning Rural Electrification Association Ltd.'s (Manning REA) electrical distribution system, and the sale and transfer of the electrical distribution system to ATCO Electric. Manning REA received AUC Approval No. [U2012-589](#),¹ in which the effective date of the transaction was stipulated to be April 5, 2013.

2. ATCO Electric filed Application No. 1609394, registered on March 18, 2013, on behalf of Manning REA, to alter the effective date of the sale and transfer from April 5, 2013, to October 5, 2013.

2 Discussion

3. ATCO Electric stated that there is a condition precedent in clause 12 of the purchase agreement related to the recovery of the costs associated with the Manning REA distribution system purchase. ATCO Electric stated that its ability to recover the full purchase price for inclusion in revenue requirement is linked directly to its performance-based regulation (PBR) Z-Factor Adjustment Application (Application No. 1609120, Proceeding ID No. 2301). ATCO Electric stated that the AUC proceeding to consider Application No. 1609120 would not be completed prior to the April 5, 2013 effective date. ATCO Electric therefore requested to alter the effective date to October 5, 2013, to allow sufficient time for the condition precedent in clause 12 to be satisfied.

4. From AUC Decision 2012-296, the Commission stated that:

The Commission is aware that ATCO may intend to incorporate the purchase price of \$11,764,347 into ATCO's rate base. However, while ATCO and the Manning REA have agreed on a purchase price of \$11,764,347 for the assets exchanged, the Commission, at this time, is not making any determination with respect to the prudence of the purchase for the purposes of including that amount in ATCO's rate base. Such a prudence review is normally a part of ATCO's subsequent Phase I Distribution Tariff Application to the Commission.

¹ Discontinuation of Distribution System Approval No. U2012-589, Application No. 1608914, Proceeding ID No. 2188, November 6, 2012.

5. Under the new PBR scheme, the Commission will not be reviewing the prudence of these costs as it would normally under a Phase I distribution tariff. However, in the case of the Manning REA, ATCO Electric has applied for the Manning REA to be considered as an exogenous (Z factor) adjustment, along with other REA purchases that have occurred in 2012 and are to occur in 2013.

6. In Proceeding ID No. 2301, to address ATCO Electric's Z factor application with respect to the REAs, the Commission is reviewing ATCO Electric's costs methodology in acquiring REAs, including the calculation of depreciation, to see if the purchases of the REAs meet the Z factor criteria in order for these costs to be treated as they would have been in cost of service. The Z factor criteria are:

- 1) The impact must be attributable to some event outside management's control.
- 2) The impact of the event must be material. It must have a significant influence on the operation of the company otherwise the impact should be expensed or recognized as income, in the normal course of business.
- 3) The impact of the event should not have a significant influence on the inflation factor in the PBR formulas.
- 4) All costs claimed as an exogenous adjustment must be prudently incurred.
- 5) The impact of the event was unforeseen.

3 Findings

7. Section 32 of the *Hydro and Electric Energy Act* states:

Rural electrification association

32(1) If a rural electrification association

- (a) under an order made under section 29,
 - (i) has the size of its service area reduced, or
 - (ii) ceases to operate in a service area or part of it,

or

- (b) on being authorized under section 30 to do so, discontinues the operation of its electric distribution system,

the Commission may, when in the Commission's opinion it is in the public interest to do so and on any notice and proceedings that the Commission considers suitable, by order transfer to another person the service area or part of it served by the rural electrification association.

(2) When the Commission makes an order under subsection (1), it may

- (a) for the purpose of ensuring the continued distribution of electric energy in the service area or part of it that was served by the rural electrification association, provide for

- (i) the transfer of any facilities associated with the electric distribution system from the rural electrification association to another party, and
- (ii) the operation of the electric distribution system or part of it by any party that the Commission directs,

and

(b) provide for any or all of the following:

- (i) the payment of compensation, if any, and the matters in respect of which compensation is payable;
- (ii) the persons by whom compensation is payable and the apportionment of liability for the compensation among those persons;
- (iii) the determination by the Alberta Utilities Commission of the amount of compensation if that amount cannot be agreed on between the parties;
- (iv) any other matters that may be necessary with respect to the transfer of the service area or part of it or with respect to the transfer of any facility associated with the electric distribution system from the rural electrification association to another person.

(3) In this section, “rural electrification association” means an association as defined in the *Rural Utilities Act* and that has as its principal object the supplying of electric energy in a rural area to the members of that association.

8. The Commission issued an information request to ATCO Electric on April 2, 2013, requesting clarification of how Manning REA was notified about the change to the effective date. ATCO Electric responded to this request on April 4, 2013, stating that verbal notification was given at a Manning REA board meeting on February 11, 2013, and written notification was provided to the Manning REA board president on March 6, 2013.

9. ATCO Electric provided information respecting the need, nature and the duration of the requested time extension. Having reviewed the application, the Commission considers that ATCO Electric has demonstrated that the change of the effective date to October 5, 2013, is reasonable due to the review of the costs related to the sale and transfer of the Manning REA to ATCO Electric in Proceeding ID No. 2301, and would be in the public interest in accordance with Section 32 of the *Hydro and Electric Energy Act*.

10. Based on these findings, the Commission approves the application pursuant to Section 32 of the *Hydro and Electric Energy Act*.

4 Decision

11. Pursuant to Section 32 of the *Hydro and Electric Energy Act*, the Commission grants the discontinuance of the Manning REA, and the alteration of the effective date of the sale and transfer as set out in Appendix 1 – Discontinuance of Distribution System - Approval No. U2013-168 – April 5, 2013, to Manning REA (Appendix 1 will be distributed separately).

12. Approval No. U2012-589 is amended by this decision.

Dated on April 5, 2013.

The Alberta Utilities Commission

(original signed by)

Henry van Egteren
Commission Member