



AUC

Alberta Utilities Commission

ATCO Electric Ltd.

**Sale and Transfer of the Elk Point
Rural Electrification Association Ltd.**

October 8, 2013

The Alberta Utilities Commission

Decision 2013-371: ATCO Electric Ltd.

Sale and Transfer of the Elk Point Rural Electrification Association Ltd.

Application No. 1609939

Proceeding ID No. 2847

October 8, 2013

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1 Introduction

1. On September 23, 2013, ATCO Electric Ltd. (ATCO Electric) applied to the Alberta Utilities Commission (AUC or the Commission) on behalf of the Elk Point Rural Electrification Association Ltd. (Elk Point REA or REA) for approval to discontinue the operation of the Elk Point REA's electrical distribution system; and for the sale and transfer of the REA's electric distribution system and related assets to ATCO Electric, pursuant to sections 25, 27, 29 and 32 of the *Hydro and Electric Energy Act*. ATCO Electric requested AUC approval of the sale and transfer by October 11, 2013, which would allow ATCO Electric to finalize the transfer and arrange payments to the Elk Point REA by mid-November, 2013.

2 Discussion

2. Elk Point REA is the operator of an electric distribution system in the Elk Point area in east-central Alberta. The original service area boundary in which the REA's electric distribution system was to operate was originally approved on September 16, 1977, by way of Approval No. HE 7793, and was amended in approvals No. HE 7793A dated June 23, 1978, HE 7793B dated August 8, 1978, HE 7793C dated May 14, 1980, HE 7793D dated May 19, 1982, HE 7793E dated May 10, 1983, and HE 7793F dated June 23, 1986.

3. On August 12, 2011, the Elk Point REA Board of Directors requested a formal offer from ATCO Electric to purchase the electric distribution system and related assets of the Elk Point REA. A notice was mailed to members of the REA advising them of a special general meeting, at which ATCO Electric's purchase offer would be presented. A notice was also published in local print media.

4. On September 5, 2012, the Elk Point REA held a special general meeting to vote on the offer from ATCO Electric to acquire the REA. The extraordinary resolution put forward by the Board of Directors for the REA sale and transfer, was approved by a quorum of Elk Point REA members. The minutes of the meeting indicated that over 200 members attended.

5. The terms and provisions of the sale were provided in the Sale of Distribution and Termination of Services Agreement (agreement), dated February 19, 2013.

6. On June 5, 2013, ATCO Electric on behalf of the Elk Point REA applied to Alberta Agriculture and Rural Development to approve the resolutions of the Elk Point REA for the sale and transfer of the REA's electrical distribution system and related assets. In a September 4, 2013 letter, the director of the Rural Electrification Associations for the province of Alberta approved the resolutions.

7. On September 12, 2012, the Commission issued Decision [2012-237](#): Rate Regulation Initiative, Distribution Performance-Based Regulation (the PBR decision).¹ The PBR decision approved PBR plans for five distribution companies, including ATCO Electric, for a five-year term commencing January 1, 2013. PBR replaces traditional cost-of-service regulation as the annual rate-setting mechanism for utility rates. The PBR framework provides a formula mechanism for the annual adjustment of rates independent of the underlying costs incurred by the companies. In general, the companies' going-in rates are adjusted annually by means of an indexing mechanism that tracks the rate of inflation relevant to the prices of inputs the companies use, less an offset to reflect the productivity improvements the companies can be expected to achieve during the PBR plan period. There are certain adjustments that distribution companies can apply for treatment outside the indexing mechanism.

8. On August 9, 2013, ATCO Electric received approval from the Commission in Decision [2013-296](#)² for the inclusion of ten REA acquisitions in 2013 going-in rates and 2014 base rates under PBR. The Commission's approval in Decision 2013-296 was subject to ATCO Electric obtaining approval of the sale and transfer under the *Hydro and Electric Energy Act*. The implementation of the 2013 and 2014 PBR rate adjustments for the ten REAs approved in Decision 2013-296 were considered placeholders, subject to Commission approval of the sale and transfer of all remaining REAs, which includes the Elk Point REA.

9. The agreement filed in this proceeding indicates the purchase price for the Elk Point REA was \$5,381,058. The agreement also stipulates that customer contributions to construction costs of the REA would be transferred to ATCO Electric on the closing date.

3 Commission findings

10. Under Section 32(1) of the *Hydro and Electric Energy Act*, the service area of an electric distribution system may not be altered without approval of the Commission. Section 32(1) 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.

11. The Elk Point REA and ATCO Electric have agreed to the sale and transfer of the REA's electric distribution system, as indicated in the agreement. The director of REAs for the province of Alberta has approved the purchase by ATCO Electric of the REA's assets by the authority

¹ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

² Decision 2013-296: ATCO Electric Ltd. - Rate Regulation Initiative, Performance-Based Regulation, Z Factor Adjustment Application, Application No. 1609120, Proceeding ID No. 2301, August 9, 2013.

granted to him pursuant to the *Rural Utilities Act*. The Commission has reviewed the application and the agreement, and is satisfied that the discontinuation of the operation of the Elk Point REA distribution system and the sale and transfer of the Elk Point REA's electric distribution system is in the public interest in accordance with Section 32 of the *Hydro and Electric Energy Act*.

12. In Decision 2013-296 referenced above, the Commission directed ATCO Electric to file an adjustment to its 2013 base rates of \$6.3 million and its 2014 base rates of \$9.6 million as a placeholder, subject to ATCO Electric obtaining all remaining sale and transfer approvals for 2013 REA acquisitions. These adjustments were to be included as placeholders in ATCO Electric's September annual PBR rate adjustment filing. The Commission stated:

... Given that certain REA assets were transferred to ATCO Electric prior to 2013 and others were forecast to be transferred in 2013, an adjustment to 2013 rates and a second adjustment to 2014 rates are required due to the use of the mid-year convention in the revenue requirement calculation for 2013. Given the time of the year in which the decision will be issued, the 2013 rate adjustment will be reflected by way of a one-time adjustment to base rates in 2014. This adjustment will reflect full year revenue requirement for acquisitions occurring prior to 2013 and a half-year revenue requirement for 2013 acquisitions in accordance with the mid-year convention. An additional adjustment to 2014 rates will be required to reflect a full year's revenue requirement associated with the 2013 REA acquisitions. This second 2014 rate adjustment will be carried forward and be subject to the I-X mechanism for subsequent years during the PBR term. The result will be that 2014 will have the collection of two years of revenue requirement; 2013 and 2014. Accordingly, ATCO Electric is directed to make rate adjustments in its September 2013 annual PBR rate adjustment filing. The implementation of the 2013 and 2014 rate adjustments shall be considered as placeholders, subject to the securing of all remaining 2013 stage one approvals prior to December 31, 2013. If ATCO Electric is unable to secure any of these approvals prior to that date, it shall make the required adjustment in its September 2014 annual PBR rate adjustment filing.³

13. Consistent with Decision 2013-296 the Commission considers that if any adjustments to ATCO Electric's 2013 and 2014 PBR base rates are necessary due to the actual purchase price for the Elk Point REA of \$5,381,058 as stipulated in the agreement, ATCO Electric should advise the Commission in Proceeding ID No. 2824⁴ of the adjustments required to its 2014 PBR rates.

4 Decision

14. Pursuant to Section 32 of the *Hydro and Electric Energy Act*, the Commission authorizes the sale and grants the transfer of the REA's electric distribution system to ATCO Electric. The Commission grants the discontinuance of Elk Point REA, as set out in Appendix 1 – Discontinuance of Distribution System – Approval No. U2013-439 – October 8, 2013, to Elk Point REA (Appendix 1 will be distributed separately.)

³ Decision 2013-296, paragraph 96.

⁴ ATCO Electric Ltd. 2013 Performance-based Regulation Annual Filing Application, Application No. 1609913, filed September 10, 2013.

Dated on October 8, 2013.

The Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member