



ATCO Electric Ltd.

**Sale and Transfer of the Peace Country
Rural Electrification Association Ltd.**

November 13, 2013

The Alberta Utilities Commission

Decision 2013-404: ATCO Electric Ltd.

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Application No. 1610001

Proceeding ID No. 2875

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1 Introduction

1. On October 21, 2013, ATCO Electric Ltd. (ATCO Electric) applied to the Alberta Utilities Commission (AUC or the Commission) on behalf of the Peace Country Rural Electrification Association Ltd. (Peace Country REA or REA) for approval to discontinue the operation of the Peace Country 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*, RSA 2000 c. H-16.

2. ATCO Electric requested the Commission's approval of the application occur concurrently with ATCO Electric's application to the Rural Utilities Division of Alberta Department of Agriculture and Rural Development, in order to ensure that a decision is received from both the Rural Utilities Division and the Commission before the end of November 2013. Given that the Commission approved placeholders for the Peace Country REA sale and transfer in ATCO Electric's 2013 and 2014 base rates in Decision [2013-296](#),¹ related to ATCO Electric's performance-based regulation z factor adjustment application, ATCO Electric requested the AUC to approve the sale and transfer by November 12, 2013, which would allow ATCO Electric to finalize the transfer of the Peace Country REA assets by December 9, 2013.

2 Discussion

3. The Peace Country REA is the operator of an electric distribution system in the Peace Country area in northern Alberta, and includes several geographical areas previously serviced by smaller REAs that were previously amalgamated.

4. The Dawn REA, East Smoky REA, Grande Prairie East REA and Sunset REA were consolidated into a new REA designated the South Peace Rural Electrification Association Ltd. The consolidation was approved by the AUC's predecessor, the Alberta Energy and Utilities Board (EUB) on December 13, 2000, by way of Approval No. [U2000-289](#).² The South Peace REA operated its electric distribution system in the Fairview area.

¹ 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.

² Approval No. U2000-289, In the matter of the electric distribution system of South Peace Rural Electrification Association Ltd., Application No. 2000260, December 13, 2000.

5. The Highland Park REA, MacDonald REA, Silver Valley REA, and Spirit River REA were consolidated into the Mighty Peace Rural Electrification Association Ltd., approved by the EUB on February 11, 2004, in Approval No. [U2004-026](#).³ The Mighty Peace REA operated its electric distribution system in the Grand Prairie and Valleyview areas.
6. The South Peace REA and Mighty Peace REA received EUB approval to amalgamate and operate as a single electric distribution system, the South Peace Rural Electric Association Ltd. on December 22, 2006, in Approval No. [U2006-328](#).⁴
7. In response to the Commission's information request, ATCO Electric indicated that the South Peace REA changed its legal name to Peace Country REA on August 13, 2008, and provided the certificate of amendment of the change of name filed with Alberta Corporate Registry. ATCO Electric confirmed that Approval No. U2006-328, is the active approval for the Peace County REA.
8. On June 9, 2011, the president of the Peace Country REA, on behalf of its Board of Directors, requested a meeting from ATCO Electric to investigate the sale of assets of the REA and to allow the REA to report back to its members in November 2011, through an information meeting.
9. On March 20, 2012, ATCO Electric presented its purchase offer to the Board of Directors of the Peace Country REA using the valuation methodology based on the established and approved formula of replacement costs new, less depreciation. In an April 19, 2012 information meeting to REA members, the Board of Directors of the REA reported back to its members the details of ATCO Electric's offer to purchase. At the meeting, ATCO Electric also presented its purchase offer to the members of the REA.
10. On September 12, 2012, the Commission issued Decision [2012-237](#): Rate Regulation Initiative, Distribution Performance-Based Regulation (the PBR decision).⁵ 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 also certain adjustments whereby distribution companies can apply for treatment outside the indexing mechanism (i.e. the performance-based regulation adjustments approved in Decision [2013-296](#)).
11. A notice was mailed to REA members advising them of a special general meeting to vote on the offer from ATCO Electric to acquire the REA. On October 26, 2012, a notice of the special general meeting dates was also published in local print media.

³ Approval No. U2004-026, In the matter of the electric distribution system of The Mighty Peace Rural Electrification Association Ltd. in the Silver Valley – Spirit River Area, Application No. 1331640, February 11, 2004.

⁴ REA - Amalgamation Approval No. U2006-328, Alberta Federation of REA's Ltd., Alter Service Area of South Peace REA due to amalgamation, Application No. 1486720, December 22, 2006.

⁵ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

12. Due the large number of Peace Country REA members, special general meetings were held on November 5 to 9, 2012, and November 12 to 14, 2012, at various locations throughout the REA's service area. ATCO Electric indicated that 57 per cent of the REA members attended the special meetings, and the extraordinary resolution for the REA sale and transfer was approved by a quorum of the Peace Country REA members.

13. The terms and provisions of the sale were provided in the asset purchase and sale agreement (agreement), dated September 30, 2013. The extraordinary resolution for the sale and transfer was passed by the Board of Directors of the REA on October 11, 2013.

14. On October 18, 2013, ATCO Electric, on behalf of the Peace Country REA, applied to the Rural Utilities Division of Alberta Department of Agriculture and Rural Development to approve the resolutions of the Peace Country REA for the sale and transfer of the REA's electrical distribution system and related assets. On October 25, 2013, the director of the Rural Electrification Associations for the province of Alberta approved the resolutions. A copy of the director's letter was submitted to the Commission on October 28, 2013.

15. The terms and provisions of the sale and transfer of the Peace Country REA to ATCO Electric were provided in the agreement, dated September 30, 2013.

16. The agreement filed in this proceeding indicates the purchase price for the Peace Country REA was \$66,332,916. 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

17. 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.

18. The Peace Country 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 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 Peace Country REA distribution system and the sale and transfer of the Peace Country REA's electric distribution system is in the public interest in accordance with Section 32 of the *Hydro and Electric Energy Act*.

19. 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.⁶

20. 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 Peace Country REA of \$ 66,332,916 as stipulated in the agreement, ATCO Electric is directed to make the required adjustment to its placeholders for the actual purchase price for the Peace Country REA in its next annual rate adjustment filing.

4 Decision

21. 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 discontinuation of the Peace Country REA, as set out in Appendix 1 – Discontinuation of Distribution System – Approval No. U2013-583 – November 13, 2013, to Peace Country REA (Appendix 1 will be distributed separately).

⁶ Decision 2013-296, paragraph 96.

Dated on November 13, 2013.

The Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member