ATCO Electric Ltd.
Errata to Decision 2014-297

2012 Distribution Deferral Accounts and Annual Filing for Adjustment Balances

January 8, 2015
Alberta Utilities Commission
Decision 2014-297 (Errata)
ATCO Electric Ltd.
2012 Distribution Deferral Accounts and Annual Filing for Adjustment Balances
Proceeding 2682

January 8, 2015

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2. On December 23, 2014, ATCO Electric Ltd. (ATCO Electric) submitted a letter advising the Commission of an error in the calculation of the 15 per cent markup associated with the camp installation, demobilization and dismantling costs paid to ATCO Structures and Logistics Ltd. (ATCO Structures). In Decision 2014-297, the 15 per cent markup was calculated using estimated costs of approximately $2,600,000 resulting in a markup amount of $400,000. However, ATCO Electric clarified that the actual charge paid to ATCO Structures was a total of $2,387,847, which included a 15 per cent markup of $311,000. In its letter, ATCO Electric indicated the actual charges were noted in AUC-AE-3 and its reply argument.

3. Further to Section 48 of the Commission’s Rule 001: Rules of Practice, the Commission may correct errors of calculation and similar errors. The Commission corrects errors of this nature through the issuance of an errata to the original decision.

4. Upon review of ATCO Electric’s letter and the record of the proceeding, the Commission considers that there was a calculation error, which resulted in the calculation of the 15 per cent markup associated with the camp installation, demobilization and dismantling costs being too high. Paragraphs 118, 119, 120 and 149 of this errata decision have been amended to reflect the corrected amount.

Dated on January 8, 2015.

Alberta Utilities Commission

(original signed by)

Willie Grieve, QC
Chair

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1 Exhibit 39.01, page 3.
2 Exhibit 44.01, paragraph 14.
(original signed by)

Anne Michaud
Commission Member

(Original signed by)

Bill Lyttle
Commission Member
ATCO Electric Ltd.

2012 Distribution Deferral Accounts and Annual Filing for Adjustment Balances

October 29, 2014
The Alberta Utilities Commission
Decision 2014-297: ATCO Electric Ltd.
2012 Distribution Deferral Accounts and
Annual Filing for Adjustment Balances
Application No. 1609719
Proceeding No. 2682

October 29, 2014

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1 Introduction

1. On June 28, 2013, ATCO Electric Ltd. (ATCO Electric or the utility) submitted an application to the Alberta Utilities Commission (the AUC or Commission) requesting approval to dispose of its 2012 distribution deferral accounts and annual filing for adjustment balances. The deferral accounts and the annual filing for adjustments included in the application totalled $34,393,000.

2. The Commission issued notice of the application on July 2, 2013. In the notice, any party who wished to intervene in this proceeding was required to submit a statement of intent to participate (SIP) to the Commission by the participation closing deadline of July 17, 2013. The Commission received SIPs from EPCOR Distribution & Transmission Inc. (EDTI), the Office of the Utilities Consumer Advocate (UCA) and the Consumers’ Coalition of Alberta (CCA). EDTI submitted that it intended to monitor the proceeding but reserved the right to participate more actively as it deemed necessary. The UCA stated that it intended to test and better understand the application through information requests (IRs) and that it also expected to submit argument. The CCA indicated that it would intervene in this proceeding because this application will impact utility rates.

3. Based upon the submissions and its own review of the application, the Commission established a written process and set the following schedule:

<table>
<thead>
<tr>
<th>Process step</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information requests to applicant</td>
<td>August 12, 2013</td>
</tr>
<tr>
<td>Information responses from applicant</td>
<td>August 26, 2013</td>
</tr>
<tr>
<td>Written argument</td>
<td>September 9, 2013</td>
</tr>
<tr>
<td>Written reply argument</td>
<td>September 23, 2013</td>
</tr>
</tbody>
</table>

4. On August 8, 2013, the Commission issued a letter explaining that certain letters from Proceeding No. 1333, relating to ATCO Electric’s inter-affiliate code of conduct compliance report for the reporting period April 1, 2011, to June 30, 2011, would be added to the record of this proceeding. The letters relate to services provided to ATCO Electric by its non-regulated affiliate, ATCO Structures and Logistics Ltd. (ATCO Structures) following the Slave Lake fires. The costs associated with these services were charged to ATCO Electric’s reserve for injuries and damages (RID) account and included in this application for approval. The letters provided information regarding ATCO Electric’s compliance with Section 4.1 of the ATCO Group inter-affiliate code of conduct (the code) while receiving affiliate services in relation to the Slave Lake fires.
5. The letters added to this proceeding were dated July 26 and 27, September 8 and 30, and October 20, 2011.

6. On August 22, 2013, ATCO Electric requested an extension to the IR response deadline to September 9, 2013, because it was unable to meet the deadline of August 26, 2013, due to the absence of key personnel and the volume of IRs. The Commission granted the extension, revised the remaining process schedule and established September 23 and October 7, 2013, as the deadlines for the submission of argument and reply argument, respectively.

7. On September 9, 2013, ATCO Electric submitted a motion requesting confidential treatment of the information requested in AUC-AE-2(a), AUC-AE-2(b), AUC-AE-3(d) and UCA-AE-7(a) and (b) pursuant to Section 13 and Section 31.1(c) of AUC Rule 001: Rules of Practice.

8. The Commission established a process for the motion, which required that parties submit their comments on the confidentiality motion by September 16, 2013 and provided ATCO Electric an opportunity to file a response by September 19, 2013.

9. On October 9, 2013, the Commission issued its ruling granting, in part, the request for confidential treatment and again revised the process for the remainder of the proceeding as follows:

<table>
<thead>
<tr>
<th>Process step</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signed confidentiality undertakings submitted</td>
<td>October 15, 2013</td>
</tr>
<tr>
<td>Confidential additional information provided by</td>
<td></td>
</tr>
<tr>
<td>ATCO Electric</td>
<td></td>
</tr>
<tr>
<td>Submission of IR response</td>
<td>October 22, 2013</td>
</tr>
<tr>
<td>Written argument</td>
<td>November 5, 2013</td>
</tr>
<tr>
<td>Written reply argument</td>
<td>November 19, 2013</td>
</tr>
</tbody>
</table>

10. On February 12, 2014, the Commission issued a letter to all parties advising that it would consider this application in light of the findings made in Decision 2013-417. The Commission issued a further round of IRs to address the impact that the findings in Decision 2013-417 may have on the relief claimed in this proceeding. This additional round of IRs to ATCO Electric were due February 24, 2014, and ATCO Electric was directed to submit its responses by March 10, 2014. Supplemental argument and reply argument on this issue were filed on March 31, 2014, and April 7, 2014, respectively.

11. On June 27, 2014, the Commission issued a subsequent notice to parties advising that it was again re-opening the record to issue additional IRs to ATCO Electric.\(^2\) ATCO Electric was directed to provide its response to the additional IRs by July 7, 2014, and all parties were permitted to file supplemental argument and reply argument by July 24, 2014, and July 31, 2014, respectively. Accordingly, the Commission considers the record of this proceeding to have closed on July 31, 2014.

12. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, including the 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 Details of the application

13. In the application, ATCO Electric provided a breakdown of the 2012 distribution deferral accounts balances as shown below.

**Table 1. 2012 distribution deferral accounts**

<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
<th>Amount (refund to)/collect from customers ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferral accounts per 2011-2012 general tariff application</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section 14-2</td>
<td>Transmission access payments</td>
<td>27,751</td>
</tr>
<tr>
<td>Section 20-6</td>
<td>Distribution capital</td>
<td>(2,352)</td>
</tr>
<tr>
<td>Section 17-8/9</td>
<td>Deduct deferrals for income tax</td>
<td>8,170</td>
</tr>
<tr>
<td>Section 25-11/13</td>
<td>Variable pay</td>
<td>931</td>
</tr>
<tr>
<td>Section 17-8/9</td>
<td>Income tax</td>
<td></td>
</tr>
<tr>
<td>Section 15-20</td>
<td>Load settlement development &amp; implementation costs</td>
<td>(331)</td>
</tr>
<tr>
<td>Section 1-12</td>
<td>Pension contributions</td>
<td></td>
</tr>
<tr>
<td>Section 17-6/7</td>
<td>Tax deferral on capital repair costs</td>
<td>(744)</td>
</tr>
<tr>
<td>Section 29-2</td>
<td>Reserve for injuries and damages</td>
<td>25,397</td>
</tr>
<tr>
<td><strong>Annual filing for adjustments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision 2012-331(^3)</td>
<td>Capitalized pension refund</td>
<td>(24,600)</td>
</tr>
<tr>
<td>Decision 2012-331</td>
<td>2012 pension placeholder</td>
<td>(400)</td>
</tr>
<tr>
<td><strong>Carrying costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011 deferrals amended</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td>277</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>485</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>34,393</td>
</tr>
</tbody>
</table>

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\(^2\) Exhibit No. 62.01.

14. ATCO Electric included carrying costs in its application, which it calculated on the assumption of a “dispensation period of January 1, 2014 to December 31, 2014” for all of the 2012 deferral balances other than the transmission access payments (TAP). The TAP and the associated Rider S have been included in the 2013 Rider G for dispensation between May 2013 and December 2013 as approved in Decision 2013-146.

3 Discussion of issues and Commission findings

3.1 Non-contested accounts

15. In this decision, the Commission has provided detailed reasons for its findings relating to the accounts for which either the parties or the Commission had identified concerns or issues. The Commission has reviewed the record as it pertains to the non-contested accounts and is satisfied that the amounts applied for in these deferral accounts are prudent. As well, the Commission accepts ATCO Electric’s filing for adjustments relating to the 2012 pension placeholder and 2010-2012 capitalized pension refund and the carrying costs associated with the deferral balances.

3.2 2012 transmission access payments (TAP)

16. ATCO Electric explained that the 2012 TAP deferral calculation and collection of $27,751,000 had been tested and approved by the Commission in Decision 2013-146. The TAP amount was included in this application in order to be consistent with previous distribution deferral application protocols. Typically, a distribution deferral application requests approval of the calculation of deferral amounts and a Rider G application requests approval of the cash collection of the placeholder or deferral amounts that have not yet been approved. However, due to the rate freeze implemented by Bulletin 2012-03, the timing and content of ATCO Electric’s 2013 Rider G application deviated from the normal practice. Consequently, ATCO Electric included the 2012 TAP deferral amount in its 2013 Rider G application, prior to the filing and determination of its 2012 distribution deferral application.

17. Because the 2012 TAP deferral calculation and collection of $27,751,000 (resulting in the net collection from customers of the 2011 and 2012 system access service deferral amount of $17,930,000 million) was approved in Decision 2013-146, no further finding is required to be made in this respect.

3.3 Decision 2013-417 and the claims made in the reserve for injuries and damages (RID) account

18. On November 26, 2013, the Commission released Decision 2013-417, a decision made following a generic proceeding dealing with the application of the Stores Block principles to the regulatory treatment of utility assets (UAD decision). The UAD decision provided the

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4 Exhibit No. 1, application, paragraph 3.
7 Exhibit No. 38.01, AUC-AE-8. In response to AUC-AE-8, ATCO Electric confirmed that it would not be submitting a Rider S application in relation to the 2012 TAP as the collection of these amounts had been approved in Decision 2013-146 through the 2013 Rider G for dispensation between May 2013 and December 2013.
Commission’s view of the potential implications of the judicial and Alberta regulatory decisions before and after the *Stores Block* decision, where the Supreme Court of Canada found that gains and losses on the disposition of land and depreciable asset outside of the ordinary course of business were for the account of the utility shareholders, not customers. As a result, the proceeds from the sale were for the account of the shareholders and the original acquisition cost of the land and the notional net book value of the building were removed from rate base and were for the account of the shareholders.

19. The Commission concluded in Decision 2013-417:

… [t]hat it is required to remove from rate base and customer rates assets that are not presently used, are not reasonably used and are unlikely to be used in the future to provide utility services. These assets may include obsolete property, property to be abandoned, overdeveloped property and facilities for future needs, and property used for non-utility purposes and surplus land. These are examples of property that the Commission may exclude from rate base that the Alberta Court of Appeal has identified in the *Carbon, Harvest Hills and Salt Caverns* decisions. Indeed, in *Salt Caverns*, the Court of Appeal said in paragraph 31 that the “rate-regulation process allows and compels the Commission to decide what is in rate base, i.e. what assets (still) are relevant utility investment” according to the used and required to be used test. In *Harvest Hills* the Court of Appeal stated in paragraph 14 that “once it was determined that there was surplus land, it should have been removed from rate base as no longer ‘required to be used’…” This implies that the Commission and the utility each have an obligation to remove assets from rate base (remove the costs from utility rates) when they cease to be “relevant utility investment.”

20. The Commission further stated:

In order to give effect to the court’s guidance that the “rate-regulation process allows and compels the Commission to decide what is in the rate base, i.e. what assets (still) are relevant utility investment on which the rates should give the company a return,” the Commission directs each of the utilities to review its rate base and confirm in its next revenue requirement filing that all assets in rate base continue to be used or required to be used (presently used, reasonably used or likely to be used in the future) to provide utility services. Accordingly, the utilities are required to confirm that there is no surplus land in rate base and that there are no depreciable assets in rate base which should be treated as extraordinary retirements and removed because they are obsolete property, property to be abandoned, overdeveloped property and more facilities than necessary for future needs, property used for non-utility purposes, property that should be removed because of circumstances including unusual casualties (fire, storm, flood, etc.), sudden and complete obsolescence, or un-expected and permanent shutdown of an entire operating assembly or plant. As stated above, these types of assets must be retired (removed from rate base) and moved to a non-utility account because they have become no longer used or required to be used as the result of causes that were not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions. Each utility will also describe those assets that have been removed from rate base as a result of this exercise. At this time, the Commission will not require the utilities to make additional filings to verify the continued operational purpose of utility assets.\(^9\)

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\(^9\) Decision 2013-417, paragraph 303.

\(^{10}\) Ibid., paragraph 327.
21. As a result of the above findings, the Commission has considered the nature of the loss of distribution assets from the Slave Lake region fires and whether these retirements should be considered extraordinary as contemplated by the Commission in Decision 2013-417.

22. ATCO Electric explained its treatment of assets damaged in the Slave Lake region fires and new replacement assets in the rate base as follows:

Consistent with ATCO Electric’s RID practice and policy, the original pre-fire facilities were not retired from ATCO Electric’s fixed asset records, nor were the new replacement assets added to the fixed assets records. Upon the eventual retirement of the replaced facilities, the retirement value and vintage will reflect that of the original damaged facilities and will show a significantly longer life. To ensure proper future depreciation rate development, ATCO Electric has tagged these future retirements as non-typical and will remove them from future depreciation rate studies.¹¹

23. In this case, there are two distinct costs incurred as the result of the Slave Lake fires. The first is the loss associated with the damage to the destroyed assets that had to be physically retired but still had a notional remaining net book value of $400,000 within a mass property account.¹² The second is the $23.2 million cost that ATCO Electric wishes to charge to the RID account, which includes $20.2 million for the cost of installation of the replacement assets and $2.8 million for the cost of removal of the destroyed assets.¹³ The following sections contains the parties’ submissions on these issues, followed by the Commission findings.

3.3.1 Regulatory treatment of assets destroyed in the Slave Lake fires

24. In AUC-AE-9(a),¹⁵ ATCO Electric submitted that:

[It] relies upon two reserve related processes to recover capital related costs - depreciation which includes the use of a reserve amortization process; and the Reserve for Injuries and Damages (“RID”) process…

Consistent with long standing practice for RID events, ATCO Electric does not record a retirement of assets as a result of an insured or uninsured event. Rather, the cost of the existing assets remains in ATCO Electric’s rates as a proxy cost for the replacement assets which are required for the provision of utility service. That proxy cost will continue to be depreciated using the Commission approved ELG [Equal Life Group] depreciation rate for the account which has contemplated the treatment of these RID events. When the replacement assets are no longer required for utility service, the cost will be retired in the ordinary course. The depreciation reserve mechanism operates to address any differences from what was contemplated in the depreciation rates.

With regard to the costs charged to the RID, those costs reflect the amounts incurred by ATCO Electric that would have been covered off by insurance, if the event had been insured, including any costs to remove the damaged assets. Had the event been fully insured, for example, the asset-related costs charged to the RID for the event would only have been any deductible payment made by ATCO Electric. However, as discussed in

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¹¹ Exhibit No. 28, UCA-AE-6.
¹² Exhibit No. 53, UCA-AE-9(c).
¹³ Exhibit No. 28, UCA-AE-6(c).
¹⁴ For the purposes of this decision, the Commission will consider the costs to remove the destroyed assets as part of the costs incurred in installing the new assets.
¹⁵ Exhibit No. 52, AUC-AE-9(a).
part (d) of this information response, pursuant to a decision that was made several years ago, the regulator directed ATCO Electric to discontinue line insurance on its distribution and transmission lines. This was done with a clear understanding by parties that the result of this action would be a reduction in insurance premiums annually (a savings for customers). It would also be accompanied by an increase in charges to the RID when those events occurred.

The above processes, which have been fully contemplated and approved by both the regulator and through past depreciation studies, do not result in any retirement of assets at the time of the RID event. Accordingly, it does not in any way give rise to an extraordinary retirement which could then potentially give rise to an extraordinary loss.

25. The Commission, through an IR, inquired if the last depreciation study that was approved considered previous losses of the type or nature associated with the Slave Lake fires. In its response, ATCO Electric explained:

As detailed in AUC-AE-9(c) Attachment 1, ATCO Electric has routinely experienced similar RID events of the type or nature associated with the Slave Lake fires over the past 10 years; namely, insured or uninsured losses relating to fires as well as wind, snow and hoar frost storms. In each instance: (1) all insured deductibles and uninsured costs associated with replacement of assets caused by these events (e.g. mass account assets such as poles, conductor, transformers and meters) were consistently applied to be recovered by ATCO Electric and approved by the Commission (or its predecessor) via the use of the RID, and (2) ATCO Electric did not record a retirement of assets replaced as a result of the insured or uninsured event, and (3) any differences from what was contemplated in the depreciation rates were dealt with in the depreciation reserve mechanism. As described in part (a) of this response, this process has been fully contemplated and approved by the regulator for many years as the appropriate method of prudent cost recovery for these types of events.16

26. ATCO Electric also submitted IR responses17 to its 2003-2004 and 2005-2006 general tariff applications as evidence demonstrating that its policy of charging all costs incurred in replacing assets net of any recoveries from insurance or third parties to the RID account and leaving the cost and accumulated depreciation of the original assets in rate base as the proxy cost for the replacement assets, has been a long-standing practice.

27. Following up on ATCO Electric’s answer to UCA-AE-6, the Commission inquired further about what constitutes a non-typical event and the considerations that are taken into account in defining an event as non-typical.

28. ATCO Electric explained:

Events that are classified as a non-typical or an outlier retirement are included in all depreciation studies and specifically reviewed by the depreciation consultant for their analysis as to the historical life indications and the effect on the depreciation study results. For example, one of the analytical tools available to the depreciation consultant is a plot of retirements over time. Another analytical tool available to the depreciation consultant is an “age of retirement” analysis which can determine if the age of retirement

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16 Exhibit No. 52, AUC-AE-9(c).
17 Ibid., AUC-AE-9(d), attachments 2 and 3.
is within the historical retirement age range...All this information is analyzed by the depreciation consultant to ensure the retirement data is recorded correctly and weighted (from 0% to 100%), as deemed appropriate, for the proper treatment into the historical life indications (i.e. Iowa Curve and Average Service Life).\footnote{Exhibit No. 64, AUC-AE-11(a).}

29. ATCO Electric further elaborated on the factors taken into account in determining an event to be non-typical:

   The physical cause, frequency, and materiality of the event would be considered in the outlier retirement classification, and specifically considered in the development of average service life ... A depreciation consultant would not consider the magnitude of any financial loss resulting from an event, as that information is not required for the performance of a depreciation study. Financial losses relate to transactions that would be recognized elsewhere in the financial statements of the utility, but do not relate to accounting for the retirement of utility assets.

   A depreciation consultant would not consider the remaining book value attributed to lost or damaged assets, as theoretically under ELG, that value is considered to be zero, and the information is not required for the performance of a depreciation study ...

   ATCO Electric has not historically quantified a threshold amount to determine the effect of a given event on depreciation rates. A retirement event would have to be very significant to affect depreciation rates...If a significant retirement was to occur, ATCO Electric would perform a life analysis including and excluding the significant retirement event to determine the effect on life parameters (i.e. Iowa Curve and Average Service Life).\footnote{Exhibit No. 64, AUC-AE-11(c) and (e).}

30. ATCO Electric also explained that “[r]egardless of whether an event is viewed to be typical or non-typical for purposes of a depreciation study, the expectation of the depreciation consultant is that the costs of the retired assets will be recovered, either through the depreciation rates of the utility or through the reserve amortization process.”\footnote{Ibid., AUC-AE-11(a).}

31. Moreover, in response to the Commission’s query of what ATCO Electric’s understanding is of losses resulting from extraordinary retirements as discussed in Decision 2013-417, ATCO Electric replied:

   ATCO Electric takes the position that the UCAGU [Uniform Classification of Accounts for Natural Gas Utilities Regulation AR 546/63] does not apply to it as it is subject to the Uniform System of Accounts (“USA”). The USA does not have a definition of an extraordinary retirement however it does have a definition for extraordinary items indicating they are to be treated as defined in the CICA Handbook, section 3480. That definition does not provide any clarification with regard to the nature of the costs that would qualify, and furthermore, under IFRS [International Financial Reporting Standards] there is no separate presentation for extraordinary items. ATCO Electric adopted IFRS in the year 2011. As such, ATCO Electric does not view that the reference to extraordinary items in the USA has any relevance or relation to the UCAGU definition

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\footnote{Exhibit No. 64, AUC-AE-11(a).}
of an extraordinary retirement, which does not apply to electric utilities in Alberta in any event.\textsuperscript{21}

32. The UCA argued that ATCO Electric’s response addresses its own RID practice but does not answer the question as it relates to an extraordinary loss under the uniform system of accounts (USA). The UCA highlighted paragraph 327 of Decision 2013-417 as follows:

\begin{quote}
Accordingly, the utilities are required to confirm that there is no surplus land in rate base and that there are no depreciable assets in rate base which should be treated as extraordinary retirements and removed because they are obsolete property, property to be abandoned, overdeveloped property and more facilities than necessary for future needs, property used for non-utility purposes, property that should be removed because of circumstances including unusual casualties (fire, storm, flood, etc.) … (emphasis added by UCA)
\end{quote}

33. Based upon the Commission’s description of extraordinary losses, the UCA submitted that the losses from the Slave Lake fires appear to be extraordinary.\textsuperscript{22} The UCA stated that paragraph 327 of the UAD Decision implies that the Commission’s finding and direction are an extension of the Supreme Court of Canada’s Stores Block decision, wherein the utilities retain ownership of utility assets and any reward or risk attached to ownership of those assets. One risk inherent in ownership of an asset is losing the opportunity to depreciate it if it is lost due to an extraordinary event, such as a catastrophic fire. The utilities ought to bear this risk as the assets’ owner. Therefore, the UCA concluded that using ATCO Electric’s RID depreciation approach to maintain “proxy” costs rather than record retirements represented an inconsistency with Stores Block and the Commission’s direction in Decision 2013-417, if retirements should be treated as extraordinary retirements. The UCA further added, “[t]he implication of extraordinary retirements in this case would be shareholder responsibility for the net book value of the destroyed assets. The cost of the replacement assets remains a customer cost that … should be recovered via the RID mechanism but amortized over time.”\textsuperscript{23}

34. The UCA also contended that ATCO Electric’s accounting practice, despite its longevity, results in less accurate accounting. The UCA argued that ATCO Electric neither identified a burden avoided by using proxy costs nor a benefit to be gained; ATCO Electric has simply identified past filings and insisted that the Commission has accepted those filings. The UCA also added that, “… to the UCA’s knowledge, the circumstances of the Slave Lake fires are unique in terms of the amount and cost of assets destroyed. While the AE [ATCO Electric] approach may be valid for the destruction of relatively small portions of the system, with a relatively small cost, this is not the case with the Slave Lake fires. In the UCA’s view, AE’s approach should only be accepted where AE has provided evidence to show that customers are not harmed.”\textsuperscript{24}

35. The UCA also noted that ATCO Electric’s approach does not retire the destroyed assets. As a result, it argued, the approach does not consider whether the asset retirement should be treated as an ordinary or extraordinary retirement.\textsuperscript{25}

\begin{footnotes}
\item[21] Ibid., AUC-AE-12.
\item[22] Exhibit No. 58, UCA supplemental argument, paragraph 23.
\item[23] Exhibit No. 67, UCA second supplemental argument, paragraph 23.
\item[24] Exhibit No. 58, UCA supplemental argument, paragraph 27.
\item[25] Exhibit No. 67, UCA second supplemental argument, paragraph 11.
\end{footnotes}
36. Additionally, the UCA contested ATCO Electric’s response in AUC-AE-12 and submitted that ATCO Electric’s suggestion that the Commission should take depreciation guidance from ATCO Electric’s presentation of extraordinary items under IFRS is flawed. According to the UCA, IFRS’ treatment of losses is consistent with the Commission’s direction in Decision 2013-417 about what constitutes extraordinary retirements for both gas and electric utilities. In Chapter 4 of the introduction to the 1989 IFRS Framework currently in force, the International Accounting Standards Board (IASB) states:

4.33 The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

4.34 Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Conceptual Framework.

4.35 Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of an entity in that currency. When losses are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Losses are often reported net of related income.

37. The UCA therefore recommended that ATCO Electric be given the following directions:

- use proper utility accounting for the cost of material new assets;
- capitalize the cost of the new assets in the Slave Lake area and, consistent with proper utility accounting practices, retire the cost of the assets destroyed in the Slave Lake fire as an extraordinary retirement …
- update depreciation rates to reflect the actual experience of material retirements such as for the Slave Lake fire.

38. The CCA explained that when an asset has been destroyed or written off (in the UCA’s parlance, a “deceased asset”), it is, by definition, neither being used or useful. ATCO Electric’s treatment of leaving the deceased assets in rate base is in violation of the Commission’s direction in Decision 2013-417. The CCA also submitted that “life analysis and depreciation calculations should be based upon the best evidence, namely removing Deceased Assets and adding replacement assets to rate base at their actual cost and date of addition to rate base.”

39. The CCA reasoned that two information responses in prior cases do not make a binding precedent that can overrule a subsequent Commission direction. It added that ATCO Electric did
2012 Distribution Deferral Accounts and Annual Filing for Adjustment Balances

not cite any previous occasions where its accounting practice had been specifically addressed, given active consideration and then approved by the Commission. The CCA, therefore, maintained that ATCO Electric should record the retirement of the deceased assets.\(^{30}\)

40. In its second supplemental argument, the CCA expressed its concern regarding the responses submitted by ATCO Electric in the fourth round of IRs and that they were not fully responsive. The CCA submitted that ATCO Electric should be directed in a compliance filing to fully respond to the IRs of the Commission.

41. The CCA also raised an issue with respect to ATCO Electric’s lack of a materiality threshold in the classification of a non-typical event. The CCA submitted:

> Regarding the response to AUC-AE-12(e), CCA finds the response circular. On the one hand, ATCO Electric claims that historical RID events have been immaterial. Next, it is asserted that if a significant retirement event was to occur, ATCO Electric would perform a life analysis including or excluding the significant retirement event to determine the effect on life parameters. The problem is that how does ATCO Electric know that historical RID events have been immaterial if hasn’t performed a life analysis including or excluding the RID related retirements?\(^{31}\)

42. Consequently, the CCA submitted that ATCO Electric should be directed in a compliance filing to identify the threshold or criteria it uses to determine that a retirement is potentially material and could impact depreciation rates.

43. In its reply argument, ATCO Electric submitted that it discontinued its transmission and distribution line insurance based on a specific decision from the Commission in Decision 2007-071.\(^{32}\) ATCO Electric further added, “[i]n this regard, the scope and operation of the RID were known, understood and accepted at the time of the Commission's directions to use the RID in lieu of insurance in order to reduce utility costs; and hence rates to ratepayers. ATCO Electric submits that it would be entirely inappropriate to attempt to retroactively change or alter either the scope of the RID or its accepted and approved operation because an event of the type expressly contemplated when the insurance was discontinued has actually come to pass.”\(^{33}\)

44. ATCO Electric argued that the UCA appeared to adopt an over-simplified interpretation of Decision 2013-417 in suggesting that a fire is always an extraordinary event. ATCO Electric disagreed with the UCA and claimed to have shown in its response to AUC-AE-13 that past fires included in the RID, including the Slave Lake fires, would not have a material impact on net rate base or rates and, therefore, would not result in an extraordinary retirement. ATCO Electric also submitted that its proposed accounting and depreciation treatment of the Slave Lake fires related costs is consistent with past practices involving RID events.\(^{34}\)

45. In addition, ATCO Electric submitted that both the UCA’s and CCA’s proposals are retroactive. ATCO Electric explained:

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30 Ibid., paragraphs 9 and 10.
31 Exhibit No. 65, CCA second supplemental argument, paragraph 10.
33 Exhibit No. 60, ATCO Electric reopener reply argument, paragraph 6.
34 Exhibit No. 64, Attachment 1.
35 Exhibit No. 68, ATCO Electric supplemental reply argument, paragraphs 12 and 16.
Further, under the principle of regulatory certainty, companies should have the ability to operate in an environment that is predictable. The Slave Lake fire damages that resulted in the RID event occurred in 2011, ATCO Electric has adhered to long-standing and Commission approved practices in the treatment of these costs. Decision 2013-417 was issued in 2013, subsequent to the Slave Lake Fires. Attempts to retroactively disallow recovery of these incurred costs in the manner contemplated would be inappropriate.

Finally, though ATCO Electric has demonstrated that its request for approval to recover all applied-for costs of the Slave Lake fire are fully consistent with Decision 2013-417, ATCO Electric submits that the [Electric Utilities Act] entitles it to recover its prudently incurred costs and that case law founded upon entirely different legislation governing gas utilities dealing with entirely different applications cannot override the express terms of legislation governing Alberta’s electric utilities.36

46. ATCO Electric further responded to the CCA’s argument that an asset that has been destroyed is neither being used nor useful and therefore must be removed from rate base. ATCO Electric argued that any such retirements would be a retirement in the ordinary course and therefore the related costs should be recoverable because the causes of these retirements were reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions consistent with paragraph 327 of Decision 2013-417.37 In response to the CCA’s assertion that ATCO Electric’s answers to the Commission’s fourth round of IRs were inadequate, ATCO Electric submitted that it provided full and appropriate responses to the Commission’s interrogatories.38

47. In addition, ATCO Electric submitted that the key finding in Decision 2013-417 that is relevant to the current situation is the finding of the Commission that the Stores Block decision did not change any depreciation rules for the utilities in Alberta and, in fact, the principles developed by the Alberta Court of Appeal appear to be informed by them as explained in paragraph 296 of Decision 2013-417.39

Commission findings

48. In Decision 2013-417, the Commission found that legislative provisions relating to depreciation, return on equity, together with the Uniform Classification of Accounts for Natural Gas Utilities Regulation AR 546/63 (UCAGU) and the Uniform System of Accounts provide a framework for the recovery of utility investment and return on that investment, which also conforms to the findings of the courts in Stores Block and the related Alberta Court of Appeal decisions dealing with the disposition of assets and the removal of assets from rate base.40 On application of that framework, ordinary retirements are for the account of customers and effected through a process described as follows:

To the extent that a group of assets in a mass property account retires, on average, at a faster or slower rate than contemplated, or the actual net salvage percentage differs from the contemplated percentage, these differences are calculated at the time of the next depreciation study and the difference is amortized over the remaining life of the assets.

36 Exhibit No. 60, ATCO Electric reopener reply argument, paragraphs 30 and 31.
37 Exhibit No. 60, ATCO Electric reopener reply argument, paragraph 15.
38 Exhibit No. 68, ATCO Electric supplemental reply argument, paragraph 9.
39 Ibid., paragraph 20.
40 Decision 2013-417, paragraphs 296 and 304.
that continue to provide utility service and which continue to be accounted for in the mass property account.

Under this method, no gains or losses are considered to occur on the retirement and/or disposal of individual assets in the ordinary course of business because they are retired or disposed of at the end of their useful lives.\textsuperscript{41}

49. However, extraordinary retirements would be for the account of the utility, which is described in Decision 2013-417 as follows:

The UCAGU also makes provision for “extraordinary retirements” defined as retirements “from causes not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions.” … Under-recovery or over-recovery of capital investment on extraordinary retirements (as is the case with assets disposed of outside of the ordinary course of business or moved to a non-utility account) are for the account of the utility. The treatment of retirements for electric utilities is to the same effect under the USA Electric Plant Instructions.\textsuperscript{42}

50. After arguing that the Slave Lake fires did not give rise to an extraordinary retirement, ATCO Electric (as noted above) continues as follows:

ATCO Electric submits that the [Electric Utilities Act] entitles it to recover its prudently incurred costs and that case law founded upon entirely different legislation governing gas utilities dealing with entirely different applications cannot override the express terms of legislation governing Alberta’s electric utilities\textsuperscript{43}

51. In effect, ATCO Electric argues that the express terms of the Electric Utilities Act, SA 2003, c. E-51, ensure that the costs of assets that were incurred by the company and found prudent by the regulator when put into utility service continue to be completely recoverable by the company even after those assets (electric distribution system assets) are no longer “used directly or indirectly for the public” or “necessary to distribute electricity.”\textsuperscript{44}

52. The Commission recognizes that the Stores Block decision and the series of Alberta Court of Appeal decisions that followed are all cases dealing with the disposition of assets of gas utilities under the provisions of the Gas Utilities Act, RSA 2000, G-5. However, the specific words of the Gas Utilities Act do not establish the relevant foundational principles upon which the cases were decided. It is the fundamental principles of corporate law and private property law that the Supreme Court of Canada used in assessing the facts, interpreting the Gas Utilities Act and in determining entitlements, risks and burdens in the Stores Block decision. The principles that informed the court were, first, that the assets used for utility service are the property of the company. Customers do not acquire an interest in the property merely by paying for the services provided through the assets. And second, along with property ownership comes the right to any gain and the risk of any loss.\textsuperscript{45}

\textsuperscript{41} Decision 2013-417, paragraphs 294 and 295.
\textsuperscript{42} Ibid., paragraph 304.
\textsuperscript{43} Exhibit No. 60, ATCO Electric reopener reply argument, paragraph 31.
\textsuperscript{44} Electric Utilities Act, Section 1(1)(o)(i) and Section 1(1)(m). See also paragraph 283 of Decision 2013-417.
\textsuperscript{45} Stores Block decision, paragraph 68, “Shareholders have and they assume all risks as the residual claimants to the utility’s profit. Customers have only ‘the risk of a price change resulting from any (authorized) change in
53. The Alberta Court of Appeal decisions dealing with dispositions, voluntary removals and involuntary removals of assets from rate base, drew upon the Stores Block principles in interpreting the words of the Gas Utilities Act.

54. ATCO Electric also argues that the Stores Block decision and the related Alberta Court of Appeal decisions do not apply to the facts of the present circumstances because this application is not an asset disposition case, nor is it a case of the utility removing assets from rate base voluntarily or otherwise. This application, it argues, is about the accounting treatment for assets replacing assets destroyed during the course of normal operations.

55. In the Commission’s view, the present case engages the same corporate and property law principles that were the foundation of the above court decisions. The circumstances of this case raise directly the treatment of gains or losses relating to the property owned by the utility, or to assets no longer used, required or necessary to provide utility service. The facts of this case require the Commission to take these fundamental principles into consideration when exercising its main rate setting function. It is these fundamental principles that, when applied in the context of the applicable legislation, are determinative of the matter.

56. The Commission found in the UAD decision that where the Electric Utilities Act defines an “electric utility” in part, as an “electric distribution system” that is “used” to provide utility services and an electric distribution system as the “plant, works, equipment, systems and services necessary to distribute electricity in a service area,” the words are to the same effect as the words “used or required to be used” employed in the Gas Utilities Act to define facilities to be included in rate base. Application of these fundamental principles requires that the costs associated with assets that are sold or lost due to any cause (and therefore no longer necessary to provide service) be removed from the calculation of rates and the risk of the loss (or the benefit of any gain) be for the account of the owner of the property. The application of the principles is unrelated to the accounting construct of rate base or whether the legislation requires that assets be placed in a rate base for purposes of determining a tariff. As the Supreme Court of Canada stated in Stores Block: “The argument that assets purchased are reflected in rate base should not cloud the issue of determining who is the appropriate owner and risk bearer.”

57. The Commission has considered whether there are express terms of the Electric Utilities Act that override the fundamental corporate and property law principles expressed in the Stores Block decision. Those principles embody a symmetrical allocation of risk and reward. The owners of the utility have the benefit of any gains on assets and have the risk of losses. Customers pay for the service delivered through or across those assets as they use them. Customers are not residual claimants to the property – either gains or losses. In the Commission’s view, only the clearest of language in the Electric Utilities Act could overturn the corporate and property law principles to achieve an asymmetrical result where customers are responsible for all losses and the company is the claimant of all gains. In the absence of such express language, statutory provisions relating to the recovery from customers of costs considered prudent when incurred by the utility do not change the fundamental nature of the property and corporate law principles which dictate the entitlement to, or burden of, associated gains and losses.
58. Applying these fundamental principles to the present case leads the Commission to conclude that any losses and any gains in notional value of utility assets arising from the destruction of those assets should be treated no differently than if the assets were removed from rate base or disposed of by the utility either voluntarily or otherwise. Those assets are no longer providing service and, in the words of the Electric Utilities Act, no longer “used directly or indirectly for the public” or “necessary to distribute electricity.” Therefore, any losses and any gains are for the account of the owners of the assets – the shareholders – not the customers. In general terms, if gains in value belong to the company, rates to customers would be higher than they would otherwise be, and vice versa. If losses in value are the responsibility of the company, rates to customers would be lower than they would otherwise be, and vice versa.

59. ATCO Electric also argued that the principle of regulatory certainty requires that the Commission permit ATCO Electric to treat the costs arising from the Slave Lake fires in the same way that the costs associated with assets destroyed by natural disaster were treated in the past. ATCO Electric argues that it has adhered to long-standing and Commission-approved practices in the treatment of these costs. The Commission recognizes that the use of the RID account and the regulatory treatment of costs arising from the loss of assets because of an insured or uninsured event predates the Stores Block decision and is consistent with the treatment of gains and losses under a different set of legal assumptions. As the UAD decision explains, at one time, under practices employed by the Public Utilities Board and later the Alberta Energy and Utilities Board (board) exercising their discretion to set just and reasonable rates, all gains and all losses, whether assets were considered to be disposed of or lost inside or outside of the ordinary course of business were for the account of customers unless the actions of the utility justified different treatment. Stores Block and the series of Alberta Court of Appeal decisions that followed interpreted the scope of the Commission’s jurisdiction to regulate the rate relationship between customers and the utility companies in a way that changed this historical paradigm. Since Stores Block, it can no longer simply be assumed that the costs of assets, once found by the regulator to be prudently acquired, will be recoverable under all circumstances (unless the actions of the utility justified different treatment). The owners of the property bear the benefits of gains on the assets and the risk of losses when those assets are no longer required for utility service.

60. Accordingly, the Commission will apply its analysis in the UAD decision to assess the treatment of the $400,000 notional net book value of the destroyed assets.

61. The assets lost in the Slave Lake fires were all depreciable assets. The depreciation method employed by ATCO Electric is designed so that when a depreciable asset is taken out of service in ordinary circumstances, it is assumed to have been fully depreciated at that time. This assumption is the result of a group depreciation method that uses survivor curves which explicitly recognize that not all assets in a mass property account will retire at the expected average service life of the group. This method is intended to recover the cost of those assets that retire very early over their actual (short) life and to recover the cost of those assets that happen to last much longer than average over their actual (long) life. It is not known in advance which individual assets in a mass property account will have short lives and which will have the longest lives. When any individual asset is retired it is assumed that it was one of the assets within the mass property account that was contemplated (in the survivor curve) to retire in that particular

48 Electric Utilities Act, Section 1(1)(o)(i) and Section 1(1)(m). See also paragraph 283 of Decision 2013-417.
49 See Section 2.2 of the UAD decision.
year. No gain or loss is booked on retirement because each retired asset is assumed to have been fully depreciated and therefore assumed to have no net book value at the time of its retirement. Based on this assumption, the full original cost of the asset is debited to accumulated depreciation with the corresponding credit booked to the applicable plant asset account. These accounting entries remove (retire) the original cost of the asset that has been taken out of service from the applicable asset account. In the UAD decision, the Commission determined that the use of the depreciation method employed by the majority of Alberta utilities complies with the Stores Block principles, stating that this method:

… not only complies with the Stores Block and Alberta Court of Appeal principles but that its development appears to have been informed by those principles before these matters were addressed in these cases. The effect of this depreciation method is to remove from rate base and customer rates depreciable assets that are no longer used or required to be used to provide utility service.50

62. If this survivor curve and mass property account approach were not employed, the company would have to track each individual asset and would depreciate assets over their average expected service lives. This would result in some assets being retired before being fully depreciated and the undepreciated investment in each individual asset would be tracked and known. In the absence of such an approach, under the Stores Block principles and the Alberta Court of Appeal decisions that followed, if an asset ceased to be used for utility service before being fully depreciated, the undepreciated investment in that asset would be removed from the calculation of rates and that undepreciated amount would be transferred to the account of the shareholder. If an asset must be removed from service before it has reached the end of its useful life, the UAD decision confirmed that the removal of the asset must be assessed to determine whether the cause of the removal was something reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions in the determination of the depreciation parameters (Iowa curves and average service life) for the relevant mass property account. If the characteristics of the event under which the asset was removed from service had not been taken into account, then the removal from service is an extraordinary retirement and any loss or gain on the asset upon its removal from service is for the account of the company. The regulatory treatment of subsequent similar occurrences would have to be considered by the Commission on a case by case basis.

63. In this case, ATCO Electric states that the $400,000 remaining notional book value of the destroyed assets should be recoverable by the company because the assets were lost as a result of causes that were reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions consistent with paragraph 327 of Decision 2013-417.51 ATCO Electric also submitted that, “… ATCO Electric has shown that past fires included in the RID, including the Slave Lake fires, would not have a material impact on net Rate Base or depreciation rates and, therefore, would not result in an extraordinary retirement.”52

64. In a series of IRs, the Commission asked ATCO Electric for the criteria or considerations employed by ATCO Electric in classifying an event as typical or non-typical. ATCO Electric addressed each of the possible criteria listed in the Commission’s IR, as described in paragraph 29 of this decision, and concluded that it is the frequency of and physical cause of the

50 UAD decision, paragraph 296.
51 Exhibit No. 60, ATCO Electric opener reply argument, paragraph 15.
52 Exhibit No. 68, ATCO Electric supplemental reply argument, paragraph 16.
event and whether the impact on depreciation rates is material that is determinative. In its IR response, ATCO Electric further clarified that the depreciation consultant does not take into account the remaining book value attributed to lost or damaged assets as, theoretically under Equal Life Group procedure, the value is considered to be zero. ATCO Electric also submitted that it has not historically quantified a threshold amount to determine the effect of a given event on depreciation rates. A retirement event would have to be very significant to affect depreciation rates. If a significant retirement were to occur, ATCO Electric would perform a life analysis including and excluding the significant retirement event to determine the effect on life parameters (i.e., Iowa curve and average service life).  

65. The Commission does not accept ATCO Electric’s submission that an event that could not have been reasonably contemplated in establishing the depreciation parameters cannot cause an extraordinary retirement unless its occurrence had a material impact on net rate base or on depreciation rates. Nor can the Commission agree with ATCO Electric that the Commission’s observation that the depreciation methods used in Alberta are consistent with the Stores Block and related decisions means that the Commission has endorsed a practice of recovering the costs of all retired assets through the depreciation method, regardless of the cause of the retirement. The Commission cannot reconcile the Stores Block principles of property ownership and symmetrical benefits and risk of loss with ATCO Electric’s statement that, “[r]egardless of whether an event is viewed to be typical or non-typical for purposes of a depreciation study, the expectation of the depreciation consultant is that the costs of the retired assets will be recovered, either through the depreciation rates of the utility or through the reserve amortization process.”  

In the Commission’s view, how the depreciation rules are to be applied for regulatory purposes must now be considered by the Commission in light of the Stores Block decision and the Alberta Court of Appeal decisions that followed.

66. The UAD decision recognized the concepts underlying the currently-used depreciation methods as being consistent with the Stores Block principles because they are intended to recover the costs of assets used in utility service over their service lives in ordinary circumstances, recognizing that retirements outside of the relevant scope of considered retirement events, regardless of the effect on depreciation parameters, would be classified as extraordinary retirements and, in accordance with the Stores Block principles, would be for the shareholder’s account. In the Commission’s view it is the characteristics of the event that are relevant to the determination of whether the event had been contemplated or anticipated by a prior depreciation study. If the characteristics of the Slave Lake fires event are sufficiently different to distinguish the Slave Lake fires from the events considered in the previous depreciation study such that the characteristics of the Slave Lake fires cannot be said to have been reasonably contemplated or anticipated in the determination of the depreciation parameters in that study, then the Commission would consider the event to give rise to an extraordinary retirement and the $400,000 notional net book value of the destroyed assets would be for the account of the shareholders.

67. As part of its investigation of the characteristics of the Slave Lake fires, the Commission sought additional information from ATCO Electric. In an IR response, ATCO Electric explained that as part of its depreciation analysis it identifies non-typical or outlier events in

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53 Exhibit No. 64, AUC-AE-11(c).  
54 Ibid., AUC-AE-11.  
55 Exhibit No. 64, AUC-AE-11(a).  
56 Ibid.
order to determine the accounting treatment those events will be afforded. The Commission asked ATCO Electric to list and describe all non-typical events that have been identified and either included in, or excluded from, ATCO Electric’s depreciation study as at December 31, 2008. The Commission also inquired about the criteria that led to the characterization of the retirements as non-typical. In its answer ATCO Electric listed 20 retirements related to transaction year vintages 1989-1994 which were tagged as outliers because of their relatively young retirement ages, but after its depreciation consultant completed further analysis and review, the retirements were given a full weighting and included in the depreciation parameter selection process. The Commission asked ATCO Electric this IR in order to obtain an illustrative example of how the criteria specified in AUC-AE-11(a) and (c) have been applied to individual events in the past. The Commission found ATCO Electric’s response lacking in clarity and details with regard to the analysis that led to the determination that the 20 outlier retirements were typical.

68. The Commission has considered the history of claims for the past ten years that ATCO Electric has charged against its RID account submitted in AUC-AE-9(c) which is shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
<th>Actuals ($000,000's)</th>
<th>Decision reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>House River Forest Fire</td>
<td>(0.1)</td>
<td>2003-071</td>
</tr>
<tr>
<td></td>
<td>Chisholm Forest Fire</td>
<td>(0.6)</td>
<td>2003-071</td>
</tr>
<tr>
<td></td>
<td>Webballa Fire</td>
<td>(0.1)</td>
<td>2003-071</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.8)</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>House River Forest Fire</td>
<td>0.0</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td>Drumheller Snowstorm</td>
<td>(0.3)</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td>Woodmere Nursery Fire</td>
<td>(0.1)</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.4)</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>Gregoire Lake Contact</td>
<td>(0.5)</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td>Red Earth Fire</td>
<td>(0.2)</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td>Grimshaw/LaCrete Windstorm</td>
<td>(0.2)</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td>Fort Vermilion/LaCrete Windstorm</td>
<td>(0.4)</td>
<td>2006-024</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.2)</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>Swan Hills - Fireman River Grass Fire</td>
<td>(0.2)</td>
<td>2009-087</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.2)</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>Hoar Frost Storm – January 2006</td>
<td>(0.4)</td>
<td>2009-087</td>
</tr>
<tr>
<td></td>
<td>SE Region Snow Storm - April</td>
<td>(0.2)</td>
<td>2009-087</td>
</tr>
<tr>
<td></td>
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<td>(0.6)</td>
<td></td>
</tr>
</tbody>
</table>

57 AUC-AE-11(d).
58 Exhibit 52, Attachment 1.
69. Relying on its review of this history of losses and of the entire record of this proceeding, the Commission makes a finding of fact that the characteristics of the Slave Lake fires which destroyed the ATCO Electric assets are sufficiently different from the characteristics of the fires and natural disaster events that have occurred over the past ten years and the events upon which the Board made its RID account assessments in Decision 2007-071. Consequently, the Commission also finds that these fires could not reasonably have been anticipated or contemplated in the determination of the parameters used in the previous depreciation study dated as at December 31, 2008. Accordingly, for regulatory purposes the Slave Lake fires give rise to an extraordinary retirement of the destroyed assets. As a result of this finding of fact, the principles established by *Stores Block* and the related Court of Appeal decisions dictate that the $400,000 notional net book value of the destroyed assets must be for the account of the ATCO Electric shareholders. The Commission has no discretion to do otherwise.

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In making this finding of fact, the Commission recognizes that in Decision 2013-358, it approved the recovery of the replacement transmission asset costs in the amount of roughly $1.1 million arising out of the same event through the operation of the RID along with other RID claims for 2010 events in the amount of $0.7 million. In that proceeding no issue was raised nor was there any discussion of whether the retirement of the destroyed transmission assets were an extraordinary retirement arising out of the Slave Lake fires. The distribution costs arising from the Slave Lake fires were not before the Commission in the transmission proceeding.
3.3.2 Regulatory treatment of the costs associated with the replacement assets

70. The UCA submitted that the $23.2 million in costs related to the Slave Lake fires should be capitalized and amortized over the remaining life of the assets. It argued that present circumstances are distinguishable from those contemplated in ATCO Electric’s RID Policy E.5 and EUB Decision 2007-071. The UCA submitted that the practice ATCO Electric cites applies to more ordinary course circumstances reflecting smaller fire and weather-related events from time to time, whereas the Slave Lake fires were a particularly catastrophic event. The UCA noted that while ATCO Electric is replacing only one per cent of the system, the net book value in the region is $146.9 million. Consequently, its $23.2 million expenditure represents a 15.8 per cent increase in rate base, making this material and atypical.\(^{65}\)

71. Moreover, as the replacement will produce longer asset lives, the UCA takes the view that capitalization is warranted. It also argued that allocating losses from large catastrophic events solely to the account of current customers is unfair, given that current customers will pay a disproportionate amount of the costs relative to future generations of customers. For reasons of intergenerational equity, the UCA submitted that the Slave Lake fires costs should be capitalized.

72. ATCO Electric disagrees with the UCA’s position and submitted that in Decision 2007-071, it was directed to discontinue third-party insurance and instead employ the RID account to self-insure against potential losses that might occur on its transmission and distribution lines. As the cost of the Slave Lake region fires related to losses that have occurred on its distribution lines, ATCO Electric argued that it is eligible for recovery through the RID account and consequently, capitalizing the $23.2 million Slave Lake fires costs to rate base would be contrary to its RID policy and the findings of Decision 2007-071. ATCO Electric also noted:

Not only would it prevent the settling of the RID deferral account in a timely manner, it would create substantial Return and Income Tax costs of approximately $44.1 million (UCA-AE-6f) for customers to bear, less short term carry costs reduction of only $0.9 million (UCA-AE-6g).\(^{66}\)

73. ATCO Electric also submitted that there will be minimal rate impacts from the collection of the RID balance as filed, because the $23.2 million Slave Lake region fires’ costs are more than offset by a proposed capitalized pension refund of $24.6 million.

74. The UCA in its reply argument, asserted that ATCO Electric’s claim that capitalizing the costs would cost customers $44.1 million may be misleading because it ignores the time value of money and a collection period of 45 years. It further added that capitalization of the costs to rebuild the Slave Lake system after a large catastrophic event is no different than capitalizing any other capital asset, where customers pay the costs over time to ensure that there is a matching of revenues to the service provided, (i.e., intergenerational equity). The UCA concluded by arguing:

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\(^{64}\) For example see: *ATCO Gas and Pipelines Ltd. v. Alberta (Utilities Commission)*, 2014 ABCA 28 at paragraphs 50, 65, 86 and 89. See also, Decision 2011-387, AltaLink Management Ltd, Sale of Assets at Riverside 388S Substation, at paragraphs 17, 53 and 54.

\(^{65}\) Exhibit No. 42, UCA argument, paragraph 57.

\(^{66}\) Exhibit No. 41, ATCO Electric argument, paragraph 13.
From a principled perspective, generally amortizing the costs of catastrophic events...will help avoid customer bill increases and the risk of rate shock in a time when there are multiple other factors putting upward pressure on customer electricity bills.67

Commission findings

75. In its 2007-2008 GTA,68 ATCO Electric proposed that the Board eliminate the Transmission and Distribution line insurance and the associated premiums for which the customer had been paying and instead rely upon the RID to handle the recovery of amounts that would otherwise have been covered by such insurance. ATCO Electric’s insurance coverage at that time provided $5.0 million coverage limit with a $1 million deductible available in tranches, for an insurance premium of $1.4 million per year.69 In its application submitted on November 6, 2006, ATCO Electric provided an eight-year and five-year average of past claims and compared that to the cost to customers of obtaining insurance coverage. That analysis demonstrated the cost savings to customers, which is illustrated in the table on the next page, of not obtaining insurance coverage and relying solely on the RID.70

Table 3. Cost savings of not obtaining insurance coverage as submitted in ATCO Electric’s 2007-2008 GTA71

<table>
<thead>
<tr>
<th></th>
<th>8 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance claims</td>
<td>7,377</td>
<td>3,349</td>
</tr>
<tr>
<td>Average claims per year</td>
<td>922</td>
<td>670</td>
</tr>
<tr>
<td>Current insurance premiums on lines</td>
<td>1,400</td>
<td>1,400</td>
</tr>
<tr>
<td>Average deductible charged to the reserve</td>
<td>446</td>
<td>572</td>
</tr>
<tr>
<td>Current cost to customers</td>
<td>1,846</td>
<td>1,972</td>
</tr>
<tr>
<td>Estimated savings to customers by eliminating coverage</td>
<td>924</td>
<td>1,302</td>
</tr>
</tbody>
</table>

76. In Decision 2007-071, the board decided as follows:

The Board notes AE’s position that the option for discontinuing insurance on Transmission and Distribution lines was put out for consideration, and that AE would follow the direction from the Board in this regard. The Board also recognizes and acknowledges the interveners’ discomfort with the notion of discontinuing Transmission and Distribution line insurance. However, the premium expense of $1.4 million per year that covers any claims from $1 million up to $5 million does not appear to be a prudent expenditure. The Board notes AE’s evidence that on average over an 8-year period customers would have saved $924,000 per year. Further, the Board also notes AE’s evidence that industry practice is to self insurance [sic] for this type of property. On this basis the Board considers that it would be prudent to discontinue insurance on Transmission and Distribution lines.72

67 Exhibit No. 45, UCA reply argument, paragraph 36.
68 Application No. 1485740.
70 Ibid.
72 Decision 2007-071, page 118.
77. The Commission has calculated the average value of claims from 2002 to 2012 excluding the Slave Lake fires (as submitted by ATCO Electric) and found it to be approximately $800,000. In addition, it is apparent to the Commission that when the board allowed ATCO Electric to discontinue its insurance coverage, it did so on the basis of evidence showing an average annual claim of $922,000 over a period of eight years, and on the testimony of ATCO Electric witnesses at that time that the largest claim experienced was a 1998 fire claim for $3.8 million. The replacement costs of the assets destroyed in the Slave Lake fires are significantly higher than the prior losses that were recovered by the company through the RID account.

78. The UCA submitted that “allocating losses from large catastrophic events solely to the account of current customers is unfair, given that current customers will pay a disproportionate amount of the cost relative to future generations of customers.” The UCA also submitted that even though capitalisation would result in additional return and income tax costs, this is in keeping with regulatory and financial principles, where customers pay the costs of capital assets over time to ensure that revenues match the service provided, i.e., intergenerational equity.

79. In the Commission’s view, while the RID accounting treatment of expensing the costs in the current year may have been acceptable for the smaller losses that had been experienced, the Commission agrees with the UCA that similar treatment for costs of $23.2 million would be inconsistent with sound regulatory principles including the principle of minimizing intergenerational inequity. Intergenerational equity is based on the concept that the users of the system should pay for the services that they receive. The absence of a provision in the RID policy dealing with intergenerational equity suggests that the RID account was not intended to recover costs in the magnitude applied for from current customers. In addition, the Commission’s finding that the $400,000 notional net book value of the destroyed assets is for the account of the shareholders and should not remain in rate base renders the RID account mechanism inapplicable. Accordingly, the Commission finds that the $23.2 million cost to replace the assets destroyed in the Slave Lake fires will not be treated through the RID account mechanism and will be treated as a capital addition for regulatory purposes.

CCA-AE-11

80. In CCA-AE-11, the CCA had requested ATCO Electric to confirm and provide evidence that shows that ATCO Electric had reviewed all the assets in its distribution rate base since the record of this proceeding had been re-opened in light of the requirements of paragraph 327 in Decision 2013-417. ATCO Electric declined to reply on the grounds that the questions were not relevant to this current proceeding. In its argument, the CCA submitted that the Commission’s directive in 2013-417 was binding on ATCO Electric, that CCA-AE-11 was a fundamentally
relevant question and requested that ATCO Electric be directed to provide that information to the Commission in accordance with the Commission’s directive.\(^79\)

**Commission findings**

81. The direction provided by the Commission in paragraph 327 of Decision 2013-417 states:

327. In order to give effect to the court’s guidance that the “rate-regulation process allows and compels the Commission to decide what is in the rate base, i.e. what assets (still) are relevant utility investment on which the rates should give the company a return,” the Commission directs each of the utilities to review its rate base and confirm in its next revenue requirement filing that all assets in rate base continue to be used or required to be used (presently used, reasonably used or likely to be used in the future) to provide utility services. Accordingly, the utilities are required to confirm that there is no surplus land in rate base and that there are no depreciable assets in rate base which should be treated as extraordinary retirements and removed because they are obsolete property, property to be abandoned, overdeveloped property and more facilities than necessary for future needs, property used for non-utility purposes, property that should be removed because of circumstances including unusual casualties (fire, storm, flood, etc.), sudden and complete obsolescence, or un-expected and permanent shutdown of an entire operating assembly or plant. As stated above, these types of assets must be retired (removed from rate base) and moved to a non-utility account because they have become no longer used or required to be used as the result of causes that were not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions. Each utility will also describe those assets that have been removed from rate base as a result of this exercise. At this time, the Commission will not require the utilities to make additional filings to verify the continued operational purpose of utility assets. (footnotes omitted) (emphasis added)

82. As noted above, the direction given in the preceding paragraphs directs the utilities to confirm in its next revenue requirement filing the status of the assets in its rate base. This proceeding is a proceeding to settle the account balances for ATCO Electric’s 2012 deferral accounts and for annual filing for adjustment balances. It is not ATCO Electric’s “next revenue requirement filing.” Consequently, the Commission finds that the questions requested in this information request are outside the scope of this proceeding.

**Insurance adjustor validation**

83. The CCA argued that a full review by the Commission of the claims process for which items are assigned to the RID, should be conducted in a separate process. The CCA submitted that the following issues could be examined:\(^80\)

- The extent to which insurance companies delegate final assessment of coverage, quantum (and liability where applicable) to the claimant, or even an adjuster hired by the claimant, as Kendal Adjusters and Derrick Adjusters have been for ATCO Electric;

- The extent to which the insurance industry relies on self-certification by a claimant, whether first party or third party, of a claim and its quantum;

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\(^79\) Exhibit No. 56, CCA supplemental argument, paragraph 7.
\(^80\) Exhibit No. 56, CCA supplemental argument, paragraph 16.
The functions of the Claims Department in an insurance company and the extent to which insurance companies have their own adjusters and or examiners to investigate and assess the claim including verification of transactional documents and appropriate mitigation by the claimant, a concept similar to prudence.

In its reply argument, ATCO Electric argued that the CCA has not provided sufficient grounds for introducing more regulatory burden in the RID claims process, especially since the RID account no longer exists under PBR.\footnote{ATCO Electric supplemental reply argument, paragraph 20.}

**Commission findings**

As noted by ATCO Electric, the RID account no longer applies for its distribution function under PBR. Under PBR, consideration of the claim would be advanced as Z factors\footnote{See Decision 2012-237, paragraph 524, for an explanation of the criteria to be applied to claim for the impact of an exogenous event as qualifying for Z factor treatment.}. In the circumstances, a further regulatory review of ATCO Electric’s RID process as it applies to distribution assets is unnecessary. The Commission makes no finding on the application of the RID policy to ATCO Electric’s transmission assets in this proceeding.

### 3.4 Slave Lake fires camp costs

At Schedule 10.10\footnote{Exhibit No. 3, application.} of its application, ATCO Electric provided a summary of the total costs incurred as a result of the Slave Lake region fires. The utility charged these costs to its RID account. Of the $24.3 million in total costs shown below, ATCO Electric allocated $23.2 million to the distribution function.\footnote{Exhibit No. 3, application, Schedule 10.10, page 1 of 8.}

<table>
<thead>
<tr>
<th>Table 4. Summary of costs incurred due to Slave Lake region fires</th>
<th>Cumulative costs to December 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission</td>
<td></td>
</tr>
<tr>
<td>Towns/geographic area</td>
<td>$227,934.79</td>
</tr>
<tr>
<td>Specific major assets</td>
<td>$647,395.62</td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
</tr>
<tr>
<td>Towns/geographic area</td>
<td>$4,467,722.51</td>
</tr>
<tr>
<td>Specific major assets</td>
<td>$4,159,052.70</td>
</tr>
<tr>
<td>Forest operations</td>
<td>$9,904,302.96</td>
</tr>
<tr>
<td>Customer care &amp; billing</td>
<td>$182,281.26</td>
</tr>
<tr>
<td>Common (Slave Lake camp &amp; Edmonton Emergency Operations Centre)</td>
<td>$4,686,993.94</td>
</tr>
<tr>
<td></td>
<td>$24,275,683.78</td>
</tr>
</tbody>
</table>

Included in the aforementioned amounts are costs incurred by ATCO Electric for contracting with ATCO Structures for the provision of camp facilities and services to support ATCO Electric’s emergency response workers and contractors during its response to the Slave Lake fires. ATCO Structures delivered, installed, dismantled, and demobilized a 150-person accommodation complex for ATCO Electric, operated the camp and provided associated turnkey services. In its application, ATCO Electric identified $5,533,560 as representing accommodation complex operating costs, and a further $3 million attributed to the provision of installation,
dismantling and demobilization services. ATCO Electric also confirmed that the $3 million included a 15 per cent markup on labour and services provided by third parties subcontracted to ATCO Structures in connection with the provision of these services.\textsuperscript{85}

88. ATCO Electric’s accommodation complex agreement with ATCO Structures terminated prior to the term set out in the agreement and the camp was subsequently re-deployed to another ATCO Structures’ client. This resulted in a net reduction of approximately $4 million to ATCO Electric’s contract costs and brought its total Slave Lake camp costs down to $4.5 million, of which $4.47 million was allocated to the utility’s distribution function.\textsuperscript{86} Consequently, ATCO Electric is requesting recovery of $4.47 million for the distribution function’s share of the Slave Lake fires camp costs.

89. The UCA submitted that ATCO Electric had not complied with sections 4.2.1 and 4.5 of ATCO Group inter-affiliate code of conduct (the code) and argued that ATCO Electric had not demonstrated to the Commission that it had paid no more than fair market value for the services it obtained from ATCO Structures related to the Slave Lake fires camp costs.\textsuperscript{87}

90. ATCO Electric disputed the UCA’s claim and advised that it had compared camp service rates to local hotel rates as a means of establishing that it had paid no more than fair market value to ATCO Structures.\textsuperscript{88}

91. The UCA argued that ATCO Electric’s comparison was flawed insofar as it only compared hotel room rates to camp daily accommodation and meal costs, and not to total camp costs, which should also include the costs of installing, dismantling and demobilizing the camp. The UCA amended ATCO Electric’s fair market value comparison table to incorporate these installation, dismantling and demobilization costs.\textsuperscript{89}

Table 5. Comparison of fair market value

<table>
<thead>
<tr>
<th></th>
<th>ATCO Electric camp</th>
<th>ATCO Gas camp</th>
<th>Super 8 Hotel</th>
<th>Holiday Inn Express</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room rate</td>
<td>$153.71</td>
<td>$160</td>
<td>$121</td>
<td>$142.50</td>
</tr>
<tr>
<td>Meals</td>
<td>Included in room rate</td>
<td>Included in room rate</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>Installation, dismantling, and demobilization costs</td>
<td>$83.33</td>
<td>$190.48</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$237.04</td>
<td>$350.48</td>
<td>$171</td>
<td>$192.50</td>
</tr>
</tbody>
</table>

92. The UCA submitted that based on an average of the Super 8 and Holiday Inn Express room rates including meals, overall hotel costs would be $1,990,560 (or 23 per cent) lower than the ATCO Structures’ cost; consequently ATCO Electric failed to show that ATCO Structures’ costs were competitive.\textsuperscript{90}

\textsuperscript{85} Exhibit No. 39, AUC-AE-2(a), Attachment 1, page 8 of 23; and Attachment 2, page 13 of 23.
\textsuperscript{86} Exhibit No. 28, UCA-AE-7.
\textsuperscript{87} Exhibit No. 42, UCA argument, paragraph 11.
\textsuperscript{88} Exhibit No. 39, AUC-AE-2(b), Attachment 2.
\textsuperscript{89} Exhibit No. 42, UCA argument, paragraph 29.
\textsuperscript{90} Ibid., paragraph 31.
93. The UCA also noted that ATCO Electric did not provide any data on the cost of installation, dismantling, and demobilization from other vendors for comparison with the prices paid to ATCO Structures. It further claimed that the installation, dismantling and demobilization costs for other camp services previously provided to ATCO Electric by ATCO Structures, which were contained in a confidential information response to AUC-AE-3(d), were also insufficient to demonstrate that no more than fair market value was paid in this case because there was no accompanying evidence to demonstrate that the physical steps undertaken for one camp were comparable to those undertaken in any other ATCO Structures camp. Moreover, in the confidential information provided in AUC-AE-3(d), ATCO Electric simply compared the amounts it paid to ATCO Structures against the amounts it paid to ATCO Structures for other projects. Consequently, the UCA argued that “[r]epeated transactions between affiliate counterparties neither constitute a ‘market’ nor establish a ‘market value.’”

94. Last, the UCA submitted that ATCO Electric’s comparison using Royal Camp Services, whose costs of camp services totalled $8,352,005, is too limited to support a conclusion that ATCO Electric paid fair market value.

95. Based upon its analysis, the UCA provided the following options for the Commission’s consideration:

- disallow ATCO Electric’s recovery of ATCO Structures’ 15 per cent mark-up fee on labour and third party costs, resulting in a $450,000 reduction; or

- rely on local hotel prices to calculate an appropriate total cost, resulting in up to a $1,990,560 reduction or 23 per cent of ATCO Structures’ costs.

96. The UCA recommended the disallowance of 23 per cent of ATCO Structures’ costs because ATCO Structures’ 15 per cent mark-up fee, which reflects an adjustment to approximately one-third of the total costs charged by ATCO Structures, is not a sufficient response given the importance of meeting the obligations set by the code.

97. In its reply argument, the UCA acknowledged that it had incorrectly stated that ATCO Electric was claiming Slave Lake camp costs of $8,533,560.50, the amount used in ATCO Electric’s business case calculation, while the amount claimed by ATCO Electric was in fact $4.47 million. Consequently, the UCA reduced the associated recommendation in its argument for a $1.99 million reduction proportionately, to $1.04 million. In doing so, the UCA confirmed that the principle underpinning its argument and analysis did not change, and remained fully applicable.

98. The CCA also had concerns with the fairness of ATCO Electric’s acquisition of camp services from ATCO Structures. It argued that ATCO Electric’s fair market value analysis made assertions without providing adequate supporting evidence, such as “ATCO Electric’s subsequent review of the market confirmed that a turnkey style camp similar to what ATCO Structures provided could not have been found.” In the CCA’s view, such evidence might have

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91 Ibid., paragraph 36.
92 Ibid., paragraph 42.
93 Exhibit No. 42, UCA argument, paragraph 51.
94 Exhibit No. 45, UCA reply argument, paragraph 11.
95 Exhibit No. 39.01, AUC-AE-2(b), Attachment 2, page 2 of 2.
included details of which other camp suppliers were contacted, how much information and lead-time the potential suppliers were given to respond, and the nature of the “flexible contract terms” required by ATCO Electric.  

99. The CCA also stated that there were few details on how ATCO Structures was able to successfully redeploy the camp to another client, including whether the camp needed to be moved or not, and what profits ATCO Structures may have gained by the new arrangement. For example, had ATCO Electric been able to sublet the camp to another client in situ, greater savings to customers might have been realised.

100. In light of these concerns, the CCA recommended the following requirements be imposed on ATCO Electric by way of a compliance filing:

   a. ATCO Electric should provide the date when the Business Case for the Slave Lake Accommodation Services was completed and the date when the Slave lake camp FMV [fair market value] comparison was completed. ATCO Electric should provide the documentation for those portions of the Business Case and FMV Comparison that were completed before the accommodation complex agreement was signed, even if such documentation includes working papers.

   b. ATCO Electric should provide a complete list of all fully integrated camp suppliers who could have potentially provided services to ATCO Electric for its requirements at Slave Lake. This list should include Black Diamond, PTI, Aramark and Canada North and if these suppliers are not included, a full explanation for their non-inclusion should be provided.

   c. ATCO Electric and ATCO Gas should provide all the evidence to support the two claims at the end of the Slave Lake FMV comparison and such evidence should include:

      i. what other camp suppliers were contacted;
      ii. how much information and lead-time other potential suppliers were given to respond;
      iii. what definition of “immediately” was used when contacting potential suppliers; and
      iv. details of what the “flexible contract terms” that may have excluded suppliers from meeting the ATCO Electric requirements were.

   d. Identify when ASL [ATCO Structures and Logistics] was contacted by ATCO Electric or ATCO Gas to provide formal or informal input into their camp services capabilities and compare that with when each of the other suppliers were contacted. All communications between ATCO Electric and ATCO Gas and other suppliers, including ASL, should be provided.

   e. With respect to the redeployment of the camp prior to the contracted expiry date, ATCO Electric should provide all of the details of the redeployment arrangements, including the supporting documentation for the saving of $4.0 million, any costs incurred by ATCO Electric to be released from the contract, and the arrangements with the new

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96 Exhibit No. 43, CCA argument, paragraph 37.
97 Exhibit No. 39.01, AUC-AE-2(b), Attachment 2, page 2 of 2, the two claims in ATCO Electric’s fair market value comparison discussed by the CCA were:
1. There was no other camp supplier who could respond with a turnkey camp immediately with flexible contract terms that were necessary to respond to this specific situation (emphasis added by the CCA).
2. ATCO Electric’s subsequent review of the market confirmed that a turnkey style camp similar to what ASL provided could not have been found.
client, including to whom, where and when the camp was redeployed and the terms of the new arrangements.

f. In light of the concerns that ATCO Electric may be showing favoritism to its affiliate, ASL, ATCO Electric should provide evidence that it is treating all potential camp suppliers on a level playing field and that it is making every reasonable effort to encourage ASL competitors to bid aggressively for business from ATCO Electric. 98

101. The CCA also argued that ATCO Electric’s commitment to a term of eight months in the accommodation complex agreement when it had not yet secured or agreed to the cost of installing, dismantling and demobilization of the camp99 (and would not do so for another two months) was imprudent.100 Accordingly, the CCA recommended the inclusion of the following additional information in a compliance filing:

a. All correspondence, including email exchanges, between ATCO Electric and ASL with respect to all aspects of the negotiations, bidding process, contracting process and execution of the accommodation complex agreement and camp installation, dismantling and demobilization.

b. Regarding installation costs, a breakdown of actual costs compared item by item with the estimated breakdown of costs in the camp installation, dismantling and demobilization.

c. Regarding dismantling and demobilization costs, a breakdown of actual costs compared item by item with the estimated breakdown of costs in the camp installation, dismantling and demobilization.

d. Identification of any costs in item b. and c. above where equipment was salvaged, including the salvage value of that equipment.101

102. ATCO Electric, in its reply argument, submitted that the Commission’s decision should be evaluated based on the facts and circumstances that ATCO Electric was experiencing at the time that it was sourcing the camp services contract and not assessed with the benefit of hindsight. It argued that the UCA was relying on a purely hypothetical scenario to support its recommendation of disallowing 23 per cent of ATCO Structures’ costs, as hotels and restaurants in Slave Lake were closed during the incident. Also, there were no rooms available in surrounding communities such as High Prairie, Athabasca and Westlock, because they were all being used to support hundreds of evacuees. ATCO Electric further noted that these communities were all at least one hour away from Slave Lake and, consequently there would be significant amount of travel time to and from these locations to the work site.

103. ATCO Electric submitted that because there were no accommodations available in Slave Lake or surrounding communities at the material time, its only option was to attempt to secure camp services from a camp services provider. The utility further stated that it had only selected ATCO Structures after it had completed a comparison of other vendors who could possibly

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98 Exhibit No. 43, CCA argument, paragraph 45.
99 The accommodation complex agreement was signed on May 24, 2011, and the camp installation, dismantling and demobilization contract was signed on July 22, 2011.
100 Exhibit No. 43, CCA argument, paragraph 26.
101 Ibid., paragraph 29.
provide the complete camp setup and related services, as shown in the business case attached to AUC-AE-2(b).\textsuperscript{102}

104. In addition, ATCO Electric argued that it had provided a detailed/itemized breakdown of the $3 million in estimated costs of installation, dismantling and demobilization of the camp in AUC-AE-2(a) and that the 15 per cent markup on costs included in the $3 million was commercially reasonable and in line with typical profit margins for service providers.\textsuperscript{103}

105. ATCO Electric further noted that any camp contract, regardless of the supplier, would inevitably have been on a take-or-pay basis, due to the fact that the length of time the camp would be needed was unknown at the time of the disaster. In its submission, ATCO Electric argued that a non-affiliate would have had very little incentive to redeploy the camp prior to the contracted expiry date to save costs for ATCO Electric. Consequently, it was able to reduce costs to customers as a result of working with ATCO Structures to redeploy the camp to another client. In its estimation, this action saved customers approximately $4 million.\textsuperscript{104}

106. ATCO Electric explained that it charged other entities (i.e., Red Cross, Town of Slave Lake, Stantec, and ATCO Gas) for unused Slave Lake camp rooms at the same rate it was paying ATCO Structures, and credited all $0.235 million in revenues received from these entities against the costs charged to its RID account. ATCO Electric argued that the fact that it was able to rent out the rooms to arm’s-length third parties at the same rate it was paying, confirmed that it was paying fair market value for the services obtained from ATCO Structures. According to ATCO Electric, independent third parties would not have paid this amount otherwise.\textsuperscript{105}

**Commission findings**

107. Section 4 of the code outlines the requirements for obtaining services from a for-profit affiliate:

\begin{quote}
4.1 For Profit Affiliate Services  
Where a Utility determines it is prudent in operating its Utility business to do so, it may obtain For Profit Affiliate Services from an Affiliate or provide For Profit Affiliate Services to an Affiliate.  

\ldots

4.2.1 Utility Acquires For Profit Affiliate Service  
When a Utility acquires For Profit Affiliate Services it shall pay no more than the Fair Market Value of such services. The onus is on the Utility to demonstrate that the For Profit Affiliate Services have been acquired at a price that is no more than the Fair Market Value of such services.  

\ldots
\end{quote}

\textsuperscript{102} Exhibit No. 41, ATCO Electric argument, paragraph 25.  
\textsuperscript{103} Ibid., paragraph 14.  
\textsuperscript{104} Ibid., paragraph 29.  
\textsuperscript{105} Exhibit No. 44, ATCO Electric reply argument, paragraph 24.
4.5 Determination of Fair Market Value
In demonstrating that Fair Market Value was paid or received pursuant to a For Profit Affiliate Service arrangement or a transaction contemplated by sections 4.1, 4.2 and 4.4 hereof, the Utility, subject to any prior or contrary direction by the EUB [Alberta Energy and Utilities Board], may utilize any method to determine Fair Market Value that it believes appropriate in the circumstances. These methods may include, without limitation: competitive tendering, competitive quotes, benchmarking studies, catalogue pricing, replacement cost comparisons or recent market transactions. The Utility shall bear the onus of demonstrating that the methodology or methodologies utilized in determining the Fair Market Value of the subject goods or services was appropriate in the circumstances.106

108. The Commission finds that the camp services obtained by ATCO Electric from ATCO Structures in connection with the Slave Lake fires constitute for-profit affiliate services within the meaning of the code.

109. Because ATCO Electric received for-profit affiliate services from ATCO Structures, ATCO Electric must demonstrate that it paid no more than fair market value for these services and that its methodology for determining the fair market value of the services in question is appropriate in the circumstances. Although ATCO Electric bears the onus of justifying that the costs it paid were at fair market value, the Commission’s assessment of the actions of ATCO Electric in incurring those costs is made without the benefit of hindsight and is, instead, made on the basis of the circumstances existing at the time.

110. In Decision 2013-358,107 the Commission accepted a comparison of camp service rates to local hotel rates in determining whether rates charged for camp services did not exceed fair market value. ATCO Electric adopted a similar method in its fair market value estimation in this application108 by comparing hotel room rates to camp daily accommodation and meal costs.

111. The Commission agrees with the UCA that a more appropriate assessment would compare hotel rates to total camp costs including daily accommodation costs, meal costs, and camp installation, dismantling and demobilization costs.

112. The Commission is also of the view that ATCO Electric’s fair market value analysis is weak because it incorporates only one other comparator, Royal Camp Services, in its assessment of the total price paid to ATCO Structures.

113. Although ATCO Electric did provide information in a confidential information response to AUC-AE-3(d) on the price it paid to ATCO Structures for the installation, dismantling and demobilization services related to other ATCO Electric projects, ATCO Electric did not provide any data on the costs of installation, dismantling, and demobilization from other vendors for comparison with the prices paid to ATCO Structures for those services. This additional data would have been of assistance to the Commission in determining whether the services were provided at fair market value.

108 Exhibit No. 39, AUC-AE-2(b).
114. The Commission also shares the CCA’s concern regarding ATCO Electric’s commitment to a term of eight months in the accommodation complex agreement at a time when it had not yet assessed, or agreed to, the associated cost of installing, dismantling and demobilizing the camp,\textsuperscript{109} and would not do so for another two months.

115. However, the Commission is mindful that at the time these services where required, the Slave Lake region had been devastated by fire. As the provider of necessary electric services, ATCO Electric was required to urgently assist in the recovery efforts.

116. The Commission accepts ATCO Electric’s evidence that no hotel rooms or food services were available in Slave Lake due to the fires.\textsuperscript{110} Consequently, even though ATCO Electric’s total camp rates are higher when compared to local hotel rates, the Commission cannot rely on the evidence filed by the UCA of hotel rates as a valid comparator given the circumstances at the time ATCO Electric was required to obtain the camp services. Consequently, it rejects the UCA’s recommendation to disallow $1.04 million of the costs paid to ATCO Structures on the basis of such a comparison.

117. Given the emergent nature of the situation, the consequent need of ATCO Electric to quickly respond, and its associated inability to conduct a complete tendering process at the material time, the Commission finds that the accommodation complex costs of $5,533,560 as agreed upon by ATCO Electric with ATCO Structures in their accommodation complex agreement were reasonable in the circumstances and that ATCO Electric has discharged the requirement to demonstrate that such costs did not exceed the fair market value of the market that was available at the time when the services were incurred.\textsuperscript{111}

118. Nonetheless, the Commission is not persuaded, on the basis of the evidence before it, that the 15 per cent markup included in $2,387,847\textsuperscript{112} for ATCO Structures’ installation, demobilization and dismantling services, was commercially reasonable and in line with typical profit margins for service providers given the circumstances at the time.

119. In the Commission’s view, it was not reasonable for ATCO Electric, especially in light of its past commercial relationships with ATCO Structures, to fail to inquire about the existence of ATCO Structures’ 15 per cent markup at the time of initial negotiations for the purpose of assessing the impact of the markup on overall contract cost. Consequently, the Commission disallows ATCO Electric’s request for recovery of the 15 per cent markup fee of $311,000 for ATCO Structures’ installation, demobilization and dismantling services.\textsuperscript{113} Accordingly, the Commission directs ATCO Electric to deduct $311,000 from the amount requested for recovery in relation to the Slave Lake fires camp costs.

\textsuperscript{109} The accommodation complex agreement was signed on May 24, 2011, and the camp installation, dismantling and demobilization contract was signed on July 22, 2011.

\textsuperscript{110} Exhibit No. 39, AUC-AE-2(b), Attachment 1.

\textsuperscript{111} Exhibit No. 39, AUC-AE-2(a), Attachment 1.

\textsuperscript{112} Even though the camp installation, demobilization and dismantling contract showed an estimated total cost of $3 million for ASL’s services, the actual total cost paid to ASL was $2,387,847 and is noted in Exhibit No. 39.01, AUC-AE-3 and Exhibit No. 44, ATCO Electric reply argument, paragraph 14.

\textsuperscript{113} The $400,000 was calculated by adding a 15 per cent markup to the installation, dismantling and demobilization costs of approximately $2,600,000 submitted by ATCO Electric in Exhibit No. 39, AUC-AE-2(a), Attachment 2, page 13 of 23. This is different than the UCA’s calculations of the 15 per cent markup on the installation, dismantling and demobilization costs, which was $450,000.
120. The Commission also directs ATCO Electric to compute any amount that it included in allowance for funds used during construction (AFUDC) and any carrying charges that were paid on the $311,000 until the release of this decision, and accordingly refund those amounts in addition to the $311,000.

3.5 Potential income from unused rooms in Slave Lake camp

121. The CCA submitted that based upon its review of ATCO Electric’s accommodation complex agreement with ATCO Structures, it appeared that ATCO Electric could release any contracted rooms not in use by ATCO Electric to ATCO Structures for them to market, and that furthermore, any rooms not under contract were considered “other client rooms” and could be made available to other clients at ATCO Structures’ option.

122. As a result, the CCA was concerned that revenue offsets owed to ATCO Electric may not have been appropriately credited to ATCO Electric, or, if they have been credited, have not been appropriately disclosed. The CCA also voiced concerns that the agreement may not have been structured to ensure that all the associated camp costs were prudently incurred. For example, if “other client rooms” were entirely for ATCO Structures profit, this may be inappropriate in light of the fact that ratepayers would be covering the entire cost of installing, dismantling and demobilizing the camp.

123. Consequently, the CCA recommended that ATCO Electric be directed, in a compliance filing, to provide the following information:

a. For each month (or portion of a month) that the camp was operational, provide the room-days used by ATCO Electric, the room-days released to ASL for resale, the room-days not used and not released, the room-days classified as Other Client Rooms that were marketed by ASL and any rooms that were not marketed by ASL.

b. Provide a full accounting of all revenues associated with each class of room identified in a. above and

c. Provide a breakdown of all revenue offsets obtained by ATCO Electric from ASL, broken into revenues for rooms under contract with ATCO Electric and revenues from rooms classified as Other Client Rooms.

d. Costs incurred for the installation of the camp.

e. Costs incurred for the dismantling of the premises.\(^{114}\)

Commission findings

124. In ATCO Electric’s response to AUC-AE-1,\(^ {115}\) ATCO Electric has listed the other entities that were charged for use of the Slave Lake camp rooms, along with the amounts charged. Further, in its response to AUC-AE-4(a) and AUC-AE-4(b),\(^ {116}\) ATCO Electric has shown that these amounts have been netted against the replacement costs. Based on its review of this evidence, the Commission finds that no further direction is required to address the concerns of the CCA in this regard.

\(^{114}\) Exhibit No. 43, CCA argument, paragraph 12.

\(^{115}\) Exhibit No. 27.

\(^{116}\) Exhibit nos. 27.02 and 27.03, Attachment 1.
3.6 Discount for electrical utility hookup

125. The CCA noted that in Schedule A to the accommodation complex agreement, there is a provision that entitles ATCO Electric to a $5 per day per room discount if it can provide its own electrical utility hookup. In the CCA’s submission, taking advantage of this clause would have resulted in ATCO Electric realizing a maximum utility discount of $180,000 if it provided its own utility service.

126. In this regard, the CCA submitted that ATCO Electric ought to be required to demonstrate the prudence of its actions with respect to this cost-saving opportunity by providing the following additional information in a compliance filing:

   a. Confirm whether ATCO Electric connected the camp to the local grid, and if so, to disclose what was the total net saving and deduct that amount from the camp costs.

   b. If the camp was not hooked up, ATCO Electric should provide a full explanation to demonstrate the prudence of this decision.\(^{117}\)

Commission findings

127. In the case of a wide-spread emergency situation in which the utility was faced with large-scale power outages, a utility would be naturally incented to restore service to its customers in lieu of dedicating resources to connecting the provided camp accommodation complex to the electrical grid in order to secure a discount on a camp services contract price. The Commission finds that ATCO Electric’s decision on how to utilize its resources was reasonable in the circumstances. Consequently, the CCA’s request for a deduction on account of foregone savings in this regard is denied.

3.7 Nature and allocation of costs in relation to the Slave Lake fires

128. The CCA submitted that the details provided in relation to the costs of the Slave Lake fires were vague and insufficient to demonstrate the prudence of the expenditures. Consequently, the CCA recommended that the costs for the following projects be disallowed as not having been prudently incurred until ATCO Electric provides an adequate accounting of the costs of these projects, including budgeted amounts compared to actuals by sub-component of cost, comprehensive variance explanations for input quantities and prices used to develop the budgeted costs compared to actual costs:

   a. Towns/Geographic Area: Slave Lake Fires $3,785,000
   b. Specific Major Assets: Fire Restoration: Utikuma Tarps Part 1 $1,574,000
   c. Forest Operations: Slave Lake Fires $2,391,000
   d. Common: Slave Lake Camp $4,586,000\(^{118}\)

129. The CCA further submitted that where budgeted costs are not available, ATCO Electric should provide comparisons of costs to parametric or benchmarking criteria, or provide other objective criteria to demonstrate the prudence of these costs.

130. ATCO Electric submitted that it had fully responded to detailed cost-related questions from the AUC in AUC-AE-4(a)(b) and that these costs were all reviewed and signed off by

\(^{117}\) Exhibit No. 43, CCA argument, paragraph 14.
\(^{118}\) Ibid., paragraph 18.
ATCO Electric’s Insurance Group as well as its external adjustors, indicating the review of events and costs being in accordance with its RID policy. ATCO Electric concluded that no further action is required by the AUC.119

Commission findings

131. The Commission has reviewed the information provided in AUC-AE-4(a) and AUC-AE-4(b) relating to the costs incurred by ATCO Electric due to the Slave Lake fires and is satisfied with the responses provided. Consequently, the Commission finds that there is no need for further information requested by the CCA on this aspect of the application and denies the CCA’s request in this regard.

3.8 Inter-affiliate code of conduct

132. The CCA identified an issue with Clause 13 of the accommodation complex agreement which states:

   Each of the parties hereto represents and warrants to the other that this Agreement complies with the ATCO Group Inter-Affiliate Code of Conduct.120

133. The CCA argued that “This statement does not go as far as it should … the agreement contains no ongoing obligation for the parties to ensure that all actions they may take under the terms of this agreement must also be in accordance with the IACC [Inter Affiliate Code of Conduct].”121

134. The CCA also stated that Clause 13 appeared to have no practical effect. The CCA argued that “If any term of the agreement was found not to be in compliance, which of the parties would be responsible for the breach of warranty and liable to provide the remedy to the other? How would they go about proving whose fault it was?”122 The CCA submitted that the same issues arose at paragraph T38123 of the camp installation, dismantling and demobilization contract.

135. The CCA also argued that the code should have been incorporated by reference into each of the accommodation complex agreement and the camp installation, dismantling and demobilization agreement.

136. Consequently, the CCA recommended that ATCO Electric be directed to undertake the following:

   a. provide the entire Inter-Affiliate Code of Conduct (and a summary, if appropriate) in future contracts between affiliates where the IACC applies;

   b. in the case of Slave Lake, require that all key management staff at ATCO Electric and ASL that were involved in the Slave Lake camp be directed to review the IACC and to provide written confirmation to the Commission that they have reviewed the IACC and that all activities under the ACA [accommodation complex agreement] and CIDD[camp

119 Exhibit No. 44, ATCO Electric reply argument, paragraph 26.
120 Exhibit No. 39, AUC-AE-2(a), Attachment 1, page 5 of 23.
121 Exhibit No. 43, CCA argument, paragraph 20.
122 Ibid., paragraph 23.
123 Exhibit No. 39, AUC-AE-2(a), Attachment 1, page 9 of 23.
installation dismantling and demobilization contract) were in conformance to the IACC and any deficiencies in complying with the IACC Conduct be fully documented.\textsuperscript{124}

137. ATCO Electric submitted that the code expressly applies to these affiliate transactions, consequently there is no need to incorporate the code by reference into either the accommodation complex agreement or the camp installation, dismantling and demobilization contract.\textsuperscript{125}

**Commission findings**

138. The Commission has reviewed Clause 13 in the accommodation complex agreement and Clause T38 in the camp installation, dismantling and demobilization contract.\textsuperscript{126} These clauses include a representation and warranty that the contract complies with the code, and in the case of the installation, dismantling and demobilization contract, includes a compliance summary form for consultants and contractors regarding code requirements. Given these representations and warranties, and the consequences for breach of such representations and warranties, the Commission expects that the parties involved have reviewed the code in the course of their engagement with the utility. Because these clauses appear to be standard requirements for ATCO Electric when contracting with consultants and contractors, the Commission finds that no further action is required.

**3.9 2012 transmission access payments deferral account – operating reserve costs**

139. The CCA expressed a general concern about the increasing amount of operating reserve charges. In ATCO Electric’s 2011 deferral account application (Proceeding No. 1990), the amount requested for collection from customers was $46.934 million compared to a forecast of $12.742 million. Further, in 2011, the proposed range for ATCO Electric’s actual operating reserve increased from 4.82 per cent to 8.53 per cent.

140. On an actual basis in 2012, the operating reserve charge level varied from 5.02 per cent in February 2012 to 13.35 per cent in June 2012. As a result, the total operating reserve charge applied for by ATCO Electric for 2012 was $53.615 million. In the CCA’s view, this indicated an increase in both the absolute charge and the volatility of the charge.

141. The CCA argued that ATCO Electric has no incentive to challenge the AESO on the prudence of these costs, or how to reduce these charges, because the costs are simply passed on to ratepayers. Given the magnitude of the operating reserve costs, the CCA recommended that ATCO Electric file, in its 2013 distribution deferral account application, details of steps it took to satisfy itself that the operating costs amounts are, in its view, reasonable and prudently incurred.\textsuperscript{127}

142. In CCA-AE-1,\textsuperscript{128} ATCO Electric provided a response to the CCA on this issue. ATCO Electric submitted:

> ATCO Electric reviews invoiced energy and pool prices on a monthly basis and tests OR [operating reserve] costs on a monthly basis. ATCO Electric also reviews OR

\textsuperscript{124} Exhibit No. 43, CCA argument, paragraph 25.
\textsuperscript{125} Exhibit No. 44, ATCO Electric reply argument, paragraph 16.
\textsuperscript{126} Exhibit No. 39, AUC-AE-2(a), attachments 1 and 2.
\textsuperscript{127} Exhibit No. 43, CCA argument, paragraph 29.
\textsuperscript{128} Exhibit No. 29.01.
percentages of the other Distribution Facility Operators in Alberta during similar time periods.

Commission findings

143. The Commission is satisfied with ATCO Electric’s response in CCA-AE-1, that its review of the invoiced energy and pool prices and tests of operating reserve costs supports its exercise of due diligence with respect to its assessment of the prudence of incurred operating costs. The Commission is also satisfied that ATCO Electric’s review of operating reserve percentages of other distribution facility operators in Alberta provides ATCO Electric with a reliable indicator of the prudence of these costs. On this basis, no further direction is required in this regard.

3.10 Deducting deferrals for income taxes

144. The tax deferral account takes the form of refunding or collecting from customers the difference between the amounts included in ATCO Electric’s 2011-2012 general tariff application129 and the actual amount claimed as a tax deduction for deferrals. The net effect of ATCO Electric’s 2012 tax treatment of deferral balances, which was a total tax add-back of $24.5 million, is a collection from customers of $8.170 million proposed by ATCO Electric in its application.130

145. The CCA noted that a significant part of the tax add-back of $24.5 million, which gave rise to the proposed collection of $8.170 million in 2012, was related to a net change on the balance sheet for previous years’ tax deferral accounts. For instance, of the $24.5 million add-back, approximately $15.0 million is related to add-backs for prior years from 2008 to 2011, inclusively. The CCA submitted that there is no clear evidence to show what gave rise to the amounts and that as a result, the AUC does not have sufficient information to approve the requested tax add-backs in the amount of $15.0 million. According to the CCA, recovery of these amounts should be denied.

146. ATCO Electric explained that the purpose of the tax deferral account was to allow ATCO Electric to deduct costs in the year incurred and recover taxes paid on the related revenues in the year the revenues are received. It submitted that, consequently, when certain 2008 to 2011 deferral account balances revenues were received in 2012, the related income taxes became collectible from customers in 2012.131

Commission findings

147. The Commission is satisfied with ATCO Electric’s explanation that the $15.0 million of tax add-backs relates to 2008 to 2011 deferral account balance revenues that were received in 2012, and that, as a result, the related income taxes became collectible from customers in 2012. The Commission therefore finds that no further direction is required and approves the collection of a sum of $8.170 million in respect of the 2012 tax treatment of deferral balances from customers, as filed.
3.11 Directions for compliance filing

148. In Decision 2013-461,\(^\text{132}\) the Commission approved the collection of a placeholder of $6.6 million as a Y factor in its 2014 annual rate adjustment. This amount is the difference between the 2012 distribution deferral accounts and annual filing for adjustment balances, totalling $34.4 million (which includes the $23.2 million incurred as costs for replacing assets destroyed in the Slave Lake fires) and the portion related to TAP and the associated Rider S, in the amount of $27.8 million, that had already been approved for collection as 2013 Rider G in Decision 2013-146. ATCO Electric was also directed to true-up any differences in its 2015 annual PBR rate adjustment filing. As a result of the placeholder granted in Decision 2013-461, ATCO Electric has already been collecting the $23.2 million charged to the RID account in relation to the Slave Lake fires.

149. Consequently, ATCO Electric is directed to address in a compliance filing the manner in which it proposes to refund the $23.2 million related to the Slave Lake fires that it has collected from customers as a Y factor in its 2014 annual rate adjustment. It is also directed to address whether adjustments related to the inclusion of the costs associated with the replacement assets in rate base, which is approximately $22.889 million (after making deductions of $311,000 related to the Slave Lake fires camp costs, along with any associated AFUDC and carrying charges that were paid on the $311,000 until the release of this decision) and the removal of the notional net book value of the destroyed assets of $400,000 from rate base should be made during the PBR term through a Y factor, Z factor or base rates adjustment or adjusted in its next full revenue requirement filing. If ATCO Electric considers that an adjustment should be made before its next full revenue requirement filing, ATCO Electric is directed to include the proposed rate impacts of its adjustments. In its compliance filing, ATCO Electric is also directed to specifically discuss and provide supporting rational for the effective date that the destroyed assets are to be removed from rate base (e.g., the date of the fires, the opening rate base in 2012, the going-in rates for PBR as at January 1, 2013, some date during the PBR term, the opening rate base at the time of ATCO Electric’s next full revenue requirement filing, some other date).

4  Order

150. It is hereby ordered that:

(1) ATCO Electric Ltd. shall refile its 2012 distribution deferral accounts and annual filing for adjustment balances by November 30, 2014, to reflect the findings, conclusions and directions in this decision.

Dated on October 29, 2014.

The Alberta Utilities Commission

(original signed by)

Willie Grieve, QC
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>
</table>
| ATCO Electric Ltd. (ATCO Electric or the utility) | L. Keough  
D. Wilson  
J. Grattan  
J. Janow  
B. Yee  
L. Kerckhof  
T. Small  
K. Chia |
| Consumers' Coalition of Alberta (CCA) | J. A. Wachowich  
A. P. Merani |
| EPCOR Distribution & Transmission Inc. (EDTI) | G. Zurek  
N. Lamers |
| Office of the Utilities Consumer Advocate (UCA) | M. D. Keen  
R. B. Wallace  
H. Gnenz  
R. Bell |

The Alberta Utilities Commission

**Commission Panel**
W. Grieve, QC, Chair  
A. Michaud, Commission Member  
B. Lyttle, Commission Member

**Commission Staff**
B. McNulty (Commission Associate General Counsel)  
C. Wall (Commission counsel)  
R. Finn (Commission counsel)  
N. Mahbub  
B. Whyte
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. In the Commission’s view, it was not reasonable for ATCO Electric, especially in light of its past commercial relationships with ATCO Structures, to fail to inquire about the existence of ATCO Structures’ 15 per cent markup at the time of initial negotiations for the purpose of assessing the impact of the markup on overall contract cost. Consequently, the Commission disallows ATCO Electric’s request for recovery of the 15 per cent markup fee of $311,000 for ATCO Structures’ installation, demobilization and dismantling services. Accordingly, the Commission directs ATCO Electric to deduct $311,000 from the amount requested for recovery in relation to the Slave Lake fires camp costs.Paragraph 119

2. The Commission also directs ATCO Electric to compute any amount that it included in allowance for funds used during construction (AFUDC) and any carrying charges that were paid on the $311,000 until the release of this decision, and accordingly refund those amounts in addition to the $311,000. Paragraph 120

3. Consequently, ATCO Electric is directed to address in a compliance filing the manner in which it proposes to refund the $23.2 million related to the Slave Lake fires that it has collected from customers as a Y factor in its 2014 annual rate adjustment. It is also directed to address whether adjustments related to the inclusion of the costs associated with the replacement assets in rate base, which is approximately $22.889 million (after making deductions of $311,000 related to the Slave Lake fires camp costs, along with any associated AFUDC and carrying charges that were paid on the $311,000 until the release of this decision) and the removal of the notional net book value of the destroyed assets of $400,000 from rate base should be made during the PBR term through a Y factor, Z factor or base rates adjustment or adjusted in its next full revenue requirement filing. If ATCO Electric considers that an adjustment should be made before its next full revenue requirement filing, ATCO Electric is directed to include the proposed rate impacts of its adjustments. In its compliance filing, ATCO Electric is also directed to specifically discuss and provide supporting rational for the effective date that the destroyed assets are to be removed from rate base (e.g., the date of the fires, the opening rate base in 2012, the going-in rates for PBR as at January 1, 2013, some date during the PBR term, the opening rate base at the time of ATCO Electric’s next full revenue requirement filing, some other date).Paragraph 149