



FortisAlberta Inc.

**Compliance Filing to Decision 21538-D01-2017
2015 Capital Tracker True-Up**

May 18, 2017

Alberta Utilities Commission

Decision 22442-D01-2017

FortisAlberta Inc.

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Proceeding 22442

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1 Decision

1. In this decision, the Alberta Utilities Commission makes a determination of FortisAlberta Inc.'s (Fortis or FAI) compliance with the Commission's directions issued in Decision 21538-D01-2017.¹ For the reasons outlined below, the Commission has determined that Fortis has complied with its directions and therefore approves Fortis' 2015 K factor adjustments as applied for in the application. Fortis is directed to refund the 2015 K factor true-up adjustment of \$14.3 million as part of a proceeding to establish Fortis' 2018 performance-based regulation (PBR) rates.

2 Introduction and procedural background

2. On January 26, 2017, the Commission issued Decision 21538-D01-2017, dealing with Fortis' 2015 capital tracker true-up application. The decision included a direction to Fortis to file a compliance filing application by February 27, 2017.

3. On February 27, 2017, Fortis filed its compliance filing application and the Commission issued notice of the application on February 28, 2017. Interested parties were requested to file statements of intent to participate (SIPs) by March 10, 2017. No SIPs were received.

4. On March 15, 2017, the Commission issued a process letter notifying parties that the application would be considered by way of a *basic written process* proceeding, as set out in Bulletin 2015-09² and established the following process schedule:

Process step	Deadline
Information requests (IRs) to Fortis	March 20, 2017
IR responses from Fortis	April 3, 2017

5. On April 3, 2017, Fortis filed responses to the Commission IRs. Accordingly, the Commission considers the record for this proceeding to have closed on April 3, 2017.

6. In reaching the determinations set out in this decision, the Commission has considered all relevant materials comprising the record of this proceeding, as well as related PBR and capital tracker decisions. Accordingly, reference 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

¹ Decision 21538-D01-2017: FortisAlberta Inc., 2015 PBR Capital Tracker True-Up, Proceeding 21538, January 26, 2017.

² Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.

matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to this matter.

3 Compliance with Commission directions

7. In Appendix A to its application, Fortis provided a table setting out the Commission directions from Decision 21538-D01-2017.³ Fortis submitted that two of the directions set out in Decision 21538-D01-2017, namely directions 4 and 5, were the subject of the compliance filing. Fortis submitted that all other directions from Decision 21538-D01-2017 would be addressed in subsequent applications.

8. The Commission’s findings respecting Fortis’ compliance with directions 4 and 5 follow.

3.1 Direction 4: provide a forecast to actual unit cost comparison of recloser replacement costs for 2014 and 2015

9. As described in Decision 21538-D01-2017, the Consumer’s Coalition of Alberta (CCA) raised a concern regarding variances between forecast and actual expenditures for recloser replacements in the Distribution Control Centre/Supervisory Control and Data Acquisition (DCC/SCADA) project.⁴ Upon reviewing the CCA concern, the Commission noted that while a variance explanation was provided and the actual unit cost was stated, the forecast unit cost used to generate the forecast capital tracker amount was not.⁵ The Commission issued the following direction:

204. Accordingly, the Commission finds that the business case in support of the actual capital expenditures on this project does not facilitate a complete review of the costs for 2015. In order to assist the Commission with the evaluation of the scope, level, and timing of the work carried out in the DCC/SCADA Project for 2015, Fortis is directed to provide the following information in the compliance filing to this decision:

	Recloser replacement (forecast)	Recloser replacement (actual)	Unit cost (forecast)	Unit cost (actual)
2014	25	10		
2015	25	33		

10. In response to Direction 4, Fortis provided Table 2 which contained the requested information.⁶ The table is reproduced below:

Table 1. Direction 4 recloser forecast to actual reconciliation

	Recloser replacement (forecast)	Recloser replacement (actual)	Unit cost (forecast)	Unit cost (actual)
2014	25	10	\$31,465	\$52,300
2015	25	33	\$33,519	\$33,519

³ Exhibit 22442-X0001, Appendix A, Commission directions to FortisAlberta.

⁴ Decision 21538-D01-2017, paragraph 198.

⁵ Decision 21538-D01-2017, paragraph 201.

⁶ Exhibit 22442-X0002, application, paragraph 8.

3.2 Direction 5: reconciliation of scope of work, forecast to actual

11. When completing the project assessment under Criterion 1 for the DCC/SCADA project, the Commission noted that Fortis had not provided a full reconciliation of the scope completed in this project when it provided variance explanations on the actual costs spent against the forecast.⁷ The Commission issued the following direction:

205. Additionally, the Commission directs Fortis, in the compliance filing and in all subsequent capital tracker true-up applications, to provide a reconciliation of the scope of work corresponding with the forecast cost for this project in a given year at the same time as it provides a variance explanation on the actual costs. Fortis may present this data as it sees fit, but the Commission considers that the data presented in Table 5 of the Pole Management program business case filed on this proceeding is a useful tool for understanding the build-up of capital expenditures in that program and suggests that a similar format be utilized for this project as well. [Direction 5] [footnotes removed]

12. In response to Direction 5, Fortis provided tables 3, 4 and 5. Table 3 showed the DCC/SCADA project capital expenditures split into subcategories. Table 4 showed forecast to actual comparisons of the number of units of SCADA devices installed. Table 5 showed forecast to actual comparisons of the average unit costs per SCADA device. All three tables showed data for 2014 and 2015.⁸

13. The data provided in tables 4 and 5 for SCADA devices installed was not provided on the same basis as the forecast application. In particular, one line entry in the tables was for “Distribution Automation schemes.” Table 2 below shows the information that was provided in tables 4 and 5 for Distribution Automation schemes.

Table 2. Summary of data provided for Distribution Automation schemes

	2014		2015	
	Forecast	Actual	Forecast	Actual
Units installed	4	4	4	4
Unit cost (\$)	859,600	821,200	726,300	665,300

Source: Compiled from Fortis-provided data in the application, tables 4 and 5. Exhibit 22442-X0002, paragraphs 13-17.

14. In its compliance filing, Fortis only provided a consolidated unit cost for Distribution Automation schemes, which was derived from an aggregation of the four applied-for Distribution Automation schemes. Fortis also did not provide a reconciliation of the scope of work of the Distribution Automation schemes as constructed against what was originally forecasted. In an IR, the Commission requested Fortis to break down the unit cost provided for Distribution Automation schemes into actual costs for each of the four Distribution Automation schemes that made up the unit cost, in order to provide a scope reconciliation of what was constructed against what was forecast, and to explain any material differences.⁹

⁷ Decision 21538-D01-2017, paragraphs 203-205.

⁸ Exhibit 22442-X0002, application, tables 3-5.

⁹ Exhibit 22442-X0009, FAI-AUC-2017MAR20-001.

15. In response to the Commission IR, Fortis provided a table showing the forecast to actual costs for each individual Distribution Automation scheme for 2015. The table is reproduced below:

Table 3. Distribution Automation project schemes capital expenditures

Distribution Automation project	2015 forecast (\$ thousand)	2015 actual (\$ thousand)	Variance (\$ thousand)
Balzac	217	282	65
Okotoks	1,101	701	(400)
Spruce Grove	961	1,012	51
Stony Plain	626	666	40
Total	2,905	2,661	(244)

Source: Exhibit 22442-X0009, FAI-AUC-2017MAR20-001, Table 1.

16. Fortis also reconciled the actual completed work scope of the individual project schemes to the forecast work scope which formed the basis of the cost estimate for each scheme. It did so by providing marked up single line diagrams of each installed scheme. The following table is derived from the information provided in the marked up single line diagrams for each scheme:

Table 4. Distribution Automation project schemes scope reconciliation

Distribution Automation project	2015 forecast underground devices	2015 installed underground devices	2016 forecast underground devices	2016 installed underground devices
Balzac	6	5	-	-
Okotoks	10	6	5	5
Spruce Grove	6	6	6	8
Stony Plain	9	10	1	1

Source: Exhibit 22442-X0009, FAI-AUC-2017MAR20-001.

17. Fortis explained that there was a scope change in the Okotoks scheme due to the cancellation of the Big Rock Substation project, resulting in the reduction of four overhead intelligent electronic devices (IEDs). This scope change was reflected in the reduced project costs. Fortis explained that the cost increase for the Spruce Grove scheme was driven by an engineering redesign to incorporate the recently-commissioned Spruce Grove 595S Substation into the Distribution Automation scheme, and that the cost increase for the Stony Plain scheme was driven by the addition of an overhead IED to provide additional coverage, sectionalizing and fault isolation capabilities.

18. For the Balzac scheme, the actual installed number of devices was less than was forecast, but the project costs increased by \$65,000. Fortis explained that the cost increases were driven by the need for a larger support base for some of the underground devices installed.

Commission findings

19. The Commission is satisfied that the necessary information has been filed as requested. The Commission's findings with respect to the DCC/SCADA project in light of the new information filed in accordance with directions 4 and 5 are set out in Section 4 of this decision.

4 2015 actual K factor

20. The following table shows Fortis' applied-for true-up 2015 K factor amounts from Proceeding 21538.

Table 5. 2015 K factor true-up

Program/project name	2015 decision K factor ¹⁰	2015 actual K factor ¹¹	Variance
	(\$ million)		
Customer Growth program*	26.0	18.3	(7.7)
Alberta Electric System Operator Contributions program	16.5	11.4	(5.1)
Substation Associated Upgrades program	4.5	4.1	(0.4)
Distribution Line Moves program	2.9	2.0	(0.9)
Urgent Repairs program, Worst Performing Feeders program, and Compliance, Safety, Aging Facilities, and Reliability program	3.9	2.9	(0.9)
Distribution Capacity Increases program	1.0	-	(1.0)
Metering Unmetered Oilfield Services program	0.8	-	(0.8)
Pole Management program	3.4	3.6	0.2
Cable Management program	0.9	0.9	(0.0)
DCC/SCADA project	2.3	4.7	2.3
2015 K factor total	62.2	47.9	(14.3)

Source: Decision 21538-D01-2017, Table 1.

Commission findings

21. In Decision 21538-D01-2017, based on the project assessment under Criterion 1, the Commission approved the need, scope, level, timing and prudence of actual capital additions for each project or program that Fortis included in the 2015 true-up, subject to the required additional information to complete the project assessment under Criterion 1 for the DCC/SCADA project.¹²

22. Further, the Commission found that the DCC/SCADA project had satisfied the project assessment requirement of capital tracker Criterion 1 in one or more previous years, consequently there was no need to undertake the project assessment under Criterion 1 again. The Commission also found no evidence on the record of that proceeding to indicate that the DCC/SCADA project was not required in 2015. With respect to the true-up of 2015 actual costs, the Commission found that the business case in support of the actual capital expenditures on this project did not facilitate a complete review of the costs for 2015, and directed Fortis to provide additional information in a compliance filing to that decision.¹³

23. In previous sections of this decision, the Commission determined that Fortis has complied with directions 4 and 5 as set out in Decision 21538-D01-2017. The Commission has reviewed the 2015 actual capital additions for the DCC/SCADA project in light of the evidence supporting these costs filed in Proceeding 21538 and the supplemental evidence filed in this

¹⁰ Decision 20351-D01-2015, Table 1.

¹¹ Exhibit 21538-X0021, application, Table 1.

¹² Decision 21538-D01-2017, paragraphs 282-283.

¹³ Decision 21538-D01-2017, paragraphs 199-204.

proceeding, including the associated procurement and construction practices and the evidence explaining the differences between approved forecast and actual costs. The Commission finds the actual costs to be prudent.

24. In Decision 21538-D01-2017, the Commission indicated that Fortis' methodology to determine the 2015 K factor true-up amount was generally consistent with the requirements set out in decisions 2012-237¹⁴ and 2013-435.^{15 16} The Commission did not request any modifications to the K factor amount applied for other than the requests for more information as discussed in Section 3 of this decision.

25. Based on the foregoing, the Commission finds that all of Fortis' projects or programs proposed for capital tracker treatment in 2015 were prudent and approves, on an actual basis, the 2015 K factor of \$47.9 million. The 2015 K factor adjustment refund amount of \$14.3 million arising from this compliance filing (subject to any applicable carrying charges in accordance with Rule 023¹⁷) is approved and shall be included as part of a proceeding to establish Fortis' 2018 PBR rates.

5 Order

26. It is hereby ordered that:

- (1) The 2015 actual K factor of \$47.9 million is approved.
- (2) The 2015 K factor adjustment refund amount of \$14.3 million arising from this compliance filing (subject to any applicable carrying charges in accordance with Rule 023) is approved and shall be included as part of a proceeding to establish Fortis' 2018 PBR rates.

Dated on May 18, 2017.

Alberta Utilities Commission

(original signed by)

Anne Michaud
Commission Member

¹⁴ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012.

¹⁵ Decision 2013-435: Distribution Performance-Based Regulation, 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

¹⁶ Decision 21538-D01-2017, paragraph 310.

¹⁷ Rule 023: *Rules Respecting Payment of Interest*.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
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FortisAlberta Inc. (Fortis or FAI)

Alberta Utilities Commission

Commission panel

A. Michaud, Commission Member

Commission staff

E. von Engelbrechten (Commission counsel)

J. Bezuidenhout

A. Jukov

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 this decision, the Alberta Utilities Commission makes a determination of FortisAlberta Inc.'s (Fortis or FAI) compliance with the Commission's directions issued in Decision 21538-D01-2017. For the reasons outlined below, the Commission has determined that Fortis has complied with its directions and therefore approves Fortis' 2015 K factor adjustments as applied for in the application. Fortis is directed to refund the 2015 K factor true-up adjustment of \$14.3 million as part of a proceeding to establish Fortis' 2018 performance-based regulation (PBR) rates. Paragraph 1