Decision **22483-D01-2017**

ATCO Electric Ltd.

Stage 2 Review of Decision 20272-D01-2016
ATCO Electric Ltd.
2015-2017 Transmission General Tariff Application

December 6, 2017

Alberta Utilities Commission
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1 Decision

1. In Decision 22094-D01-2017,[1] the Alberta Utilities Commission granted a Stage 2 review of one of the issues related to severance payments raised in ATCO Electric Ltd.'s application in which it requested a review and variance of Decision 20272-D01-2016[2] (the review application). Decision 20272-D01-2016 addressed ATCO Electric's general tariff application (GTA) for the years 2015 through 2017. ATCO Electric's review application was brought on the basis that the Commission made errors of law, fact or jurisdiction in a number of findings in that decision. In this decision, the Commission must decide whether to vary the finding made in Decision 20272-D01-2016 to disallow 35 per cent of the severance costs requested for recovery through rates by ATCO Electric.

2. In Decision 20272-D01-2016, the Commission allowed ATCO Electric to recover 65 per cent of the $12.6 million severance costs it had applied for, representing $8.2 million. For the reasons that follow, the Commission has decided to deny a variance of the disallowance of the remaining 35 per cent, or $4.4 million, of the severance costs.

2 Introduction

3. On August 22, 2016, the Commission issued Decision 20272-D01-2016 in which it decided upon ATCO Electric's 2015-2017 Transmission GTA. Among other things, the Commission made findings on (i) ATCO Electric's severance costs associated with its 2015 workforce reduction; (ii) certain income tax deductible capital costs; (iii) third-party insurance for transmission line assets; (iv) head office allocations; (v) capital maintenance amounts; (vi) rate base additions; and (vii) capital expenditure forecasts.

4. On October 20, 2016, the Commission received a review application from ATCO Electric pursuant to Section 10 of the *Alberta Utilities Commission Act* and Rule 016: *Review of Commission Decisions*. In the review application, ATCO Electric alleged that the Commission had made errors in fact, law and/or jurisdiction which were either apparent on the face of the decision or that, on a balance of probabilities, could lead the Commission to materially vary or rescind the impugned portions of Decision 20272-D01-2016.

[1] Decision 22094-D01-2017, ATCO Electric Ltd. Application for Review of Decision 20272-D01-2016 ATCO Electric Ltd. 2015-2017 Transmission General Tariff Application, Proceeding 22094, Application 22094-A001, March 16, 2017.

[2] Decision 20272-D01-2016: ATCO Electric Ltd. 2015-2017 Transmission General Tariff Application, Proceeding 20272, August 22, 2016.

5. The Commission issued its determinations on ATCO Electric's review application on March 16, 2017 in Decision 22094-D01-2017. The Commission denied the grounds for review for the issues of income tax deductible capital costs, transmission line insurance costs, and head office allocation methodology, but granted a second stage review on the issue of severance costs.

6. In Decision 22094-D01-2017, the Commission granted a review with respect to several inadvertent calculation errors resulting from transposition errors or the use of outdated data that had subsequently been updated on the record of the proceeding. For these errors, which occurred in the calculation of capital maintenance costs for 2015, the capital maintenance calculation for 2016 and 2017, rate base additions and capital expenditure and additions forecasts for system projects, the Commission dispensed with a second stage review and granted the relief requested by ATCO Electric.

7. On March 21, 2017, the Commission issued a notice of hearing for the second stage review of the regulatory treatment of the 35 per cent severance cost disallowance, to consider the merits of ATCO Electric's claim for variance of the related Commission finding. The notice invited interested parties to register and to provide submissions on their concerns or support by April 4, 2017. In accordance with the established schedule, submissions were received from ATCO Electric, the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA). AltaLink Management Ltd. registered to participate but did not file a submission in the proceeding.

8. Development of the record for the current proceeding included submissions from parties, one round of information requests (IRs) to ATCO Electric, a deadline extension granted to ATCO Electric for IR responses, a motion from the CCA for better IR responses, ATCO Electric's submission of additional information as directed for certain Commission IRs, submission of argument, and submission of reply argument on September 8, 2017, which represented the close of record for the proceeding.

9. In this decision, the members of the Commission panel who authored Decision 20272-D01-2016 will be referred to as the "hearing panel" and the members of the Commission presently considering the review application will be referred to as the "review panel."

10. In reaching its determinations, the review panel has reviewed the pertinent portions of Decision 20272-D01-2016 and relevant materials comprising the record of this proceeding and of proceedings 20272 and 22094. 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 several records with respect to the matter.

3 The Commission's review process

11. The Commission's authority to review its own decisions is discretionary and is found in Section 10 of the *Alberta Utilities Commission Act*. That act authorizes the Commission to make rules governing its review process and the Commission established Rule 016 under that authority.

12. The review process has two stages. In the first stage, a review panel must decide whether there are grounds to review the original decision. This is sometimes referred to as the "preliminary question." If the review panel decides that there are grounds to review the decision, it moves to the second stage of the review process where the Commission holds a hearing or other proceeding to decide whether to confirm, vary, or rescind the original decision. In Decision 22094-D01-2017, the Commission decided the preliminary question on severance costs and exercised its discretion to grant a second stage review of severance costs as part of the current proceeding.

13. Section 6(3) of Rule 016 describes the circumstances in which the Commission may grant a review as follows:

> (3) The Commission may grant an application for review of a decision, in whole or in part, where it determines, for an application for review pursuant to subsections 4(d)(i), (ii) or (iii), that the review applicant has demonstrated:
>
> (a) In the case of an application under subsection 4(d)(i), the existence of an error of fact, law or jurisdiction is either apparent on the face of the decision or otherwise exists on a balance of probabilities that could lead the Commission to materially vary or rescind the decision.
>
> (b) In the case of an application under subsections 4(d)(ii) or 4(d)(iii), respectively, the existence of:
>
> (i) Previously unavailable facts material to the decision, which existed prior to the issuance of the decision in the original proceeding but were not previously placed in evidence or identified in the proceeding and could not have been discovered at the time by the review applicant by exercising reasonable diligence; or
>
> (ii) Changed circumstances material to the decision, which occurred since its issuance.
>
> that could lead the Commission to materially vary or rescind the decision,
>
> …

14. Section 4(d) of Rule 016 provides that an application for review must set out the grounds for the application, which grounds may include, under Section 4(d)(i), that the Commission made an error of fact, law or jurisdiction. Section 4(d)(ii) includes the grounds related to "previously unavailable facts material to the decision, which existed prior to the issuance of the decision in the original proceeding but were not previously placed in evidence or identified in the proceeding and could not have been discovered at the time by the review applicant by exercising reasonable diligence." Section 4(d)(iii) includes the grounds related to "changed circumstances material to the decision, which occurred since its issuance." ATCO Electric did not raise the latter two grounds in its review application.

15. In Decision 2012-124,[3] the Commission addressed the role of a review panel and concluded that it should apply the following principles to its consideration of the review applications before it:

- First, decisions of the Commission are intended to be final; the Commission's rules recognize that a review should only be granted in those limited circumstances described in Rule 016.

- Second, the review process is not intended to provide a second opportunity for parties with notice of the application to express concerns about the application that they chose not to raise in the original proceeding.

- Third, the review panel's task is not to retry the … application based upon its own interpretation of the evidence nor is it to second guess the weight assigned by the hearing panel to various pieces of evidence. Findings of fact and inferences of fact made by the hearing panel are entitled to considerable deference, absent an obvious or palpable error.[4]

16. The review panel finds that these principles apply equally to its consideration of the Stage 2 review of severance costs which is the focus in this proceeding.

4 Stage 2 review – severance costs

4.1 Background

17. The following quotes from Decision 22094-D01-2017[5] discuss the two arguments with respect to severance costs raised by ATCO Electric in its review application.

> 36. ATCO Electric made two fundamental arguments. First, ATCO Electric submitted that the record of the original proceeding demonstrated that it had the proper level of employees at the end of 2014 and that it was only in 2015 that it became clear that the complement of employees exceeded its ongoing needs in light of workload changes. ATCO Electric maintained that there was no evidence presented to the contrary in the original proceeding. Accordingly, ATCO Electric was not overstaffed at the beginning of 2015 and severance costs for severed employees are correctly collected through rates. ATCO Electric maintained that the hearing panel committed an error in making a contrary finding based on the record of the original proceeding. Second, ATCO Electric submitted that the hearing panel incorrectly and unfairly made a finding that a portion of the severance costs should have been paid by those affiliates who had received services from ATCO Electric employees, some of which had been included in the group of employees severed. Each of these arguments will be considered in turn.

18. The review panel made the following determination with respect to the first argument raised by ATCO Electric:

[3] Decision 2012-124: AltaLink Management Ltd. and EPCOR Distribution & Transmission Inc., Decision on Request for Review and Variance of AUC Decision 2011-436, Proceeding 1592, Applications 1607924-1, 1607942-1, 1607994-1, 1608030-1, 1608033-1, May 10, 2012.
[4] Decision 2012-124, at paragraph 31.
[5] Decision 22094-D01-2017, paragraph 36.

> 46. The review panel finds that the the [*sic*] arguments raised by ATCO Electric in relation to the number of employees at the start of 2015 in this review proceeding substantially repeat arguments raised in the original proceeding. ATCO Electric's evidence and argument in the original proceeding were considered and weighed by the hearing panel as reflected by its description of the evidence and argument in the Decision and in its findings directing a reduction in allowable costs. In the opinion of the review panel, ATCO Electric has not demonstrated a reviewable error by the hearing panel on this component of the issue.

19. The review panel found as follows with respect to the second argument raised by ATCO Electric:

> 47. ATCO Electric's second argument was that it was not provided opportunity to respond to the issue of cost allocation and charges billed to affiliates for services provided by ATCO Electric employees which formed part of the basis of the hearing panel's findings in the Decision.…
>
> …
>
> 52. The review panel considers that the transcript references and the paragraphs that follow in the Decision indicate the hearing panel's concerns regarding the potential for cross-subsidization to have occurred with respect to severance costs. This concern is further reflected in paragraph 133 where the hearing panel observed that: "[t]he utility also acknowledged during the oral hearing that it eliminated more than 80 positions at the end of 2015 that had been assigned to provide services to affiliates in 2016 and 2017 and were originally forecasted for termination by the end of 2017."
>
> 53. While the Decision indicates the hearing panel's concerns with severance payments and how they related to inter-affiliate arrangments [arrangements], it is the review panel's view that the question of whether severance contributions should have been or were collected from affiliates was not adequately explored on the record of Proceeding 20272. **The issue of cross subsidization was explored generally but ATCO Electric was not afforded an opportunity to directly speak to the inclusion or exclusion of inter-affiliate charges for potential employee severance costs and the implications thereof to the costing of inter-affiliate services and to the inclusion of severance costs in the utility's revenue requirement.** Accordingly, neither ATCO Electric, nor any intervenor to the proceeding, spoke to the matter in final argument or reply. For this reason, **the review panel finds that ATCO Electric has demonstrated a reviewable error**. [emphasis added]
>
> 54. Further, given the evidence that "one to two dozen employees" were allocated entirely to affiliate projects while "slivers of time" of other employees were also allocated, there is uncertainty on the record and in the Decision with respect to the proportion of severance costs associated with employees providing services to affiliates. A review of apportment [apportionment] issues alone would likely be inefficient as the issues of prudent use of resources and cost allocation are interrelated. In these circumstances, **the review panel finds it necessary to permit a second stage review of the regulatory treatment of the entirety of the 35 per cent severance costs disallowance. Accordingly, the second stage review may examine the justification for the severance costs as well as arguments for and against the apportionment of those costs between ATCO Electric and its affiliates.** The review panel was not asked to review the Commission's finding that at least 65 per cent of the severance costs are

> recoverable through revenue requirement. Accordingly, the second stage review will not reconsider that finding. [emphasis added]
>
> 55. The review panel finds that ATCO Electric has demonstrated, on a balance of probabilities or on the face of the decision, that an error has been made that could lead the Commission to materially vary or rescind the Decision in respect of severance costs. Accordingly, the review panel grants a second stage review of the Decision insofar as it relates to the disallowance of 35 per cent of the $12.6 million in severance costs, applied for by ATCO Electric, related to the termination of approximately 337 positions in 2015.

20. In Decision 22094-D01-2017, the review panel found that the hearing panel had erred by not affording ATCO Electric an opportunity to directly speak to the inclusion or exclusion of inter-affiliate charges for potential employee severance costs and the implications thereof to the costing of inter-affiliate services and to the inclusion of severance costs in the utility's revenue requirement. The review panel found that the question of whether severance contributions should have been or were collected from affiliates was not adequately explored on the record of Proceeding 20272, and could lead the Commission to materially vary or rescind the decision in respect of severance costs.

21. Accordingly, a second stage review was granted to examine the justification for the severance costs on the apportionment of costs between ATCO Electric and its affiliates, insofar as it relates to the disallowance of 35 per cent of the $12.6 million in severance costs.[6]

4.2 Positions of the parties

22. ATCO Electric stated that it:

> … charged all of its Affiliates for whom it provided services the appropriate amounts as mandated by the Code of Conduct [ATCO Group Inter-Affiliate Code of Conduct]. These "fully burdened costs" include all applicable costs, including any indirect costs that AET [ATCO Electric Transmission] may have to incur for unknown circumstances, such as where an employee who was involved in the provision of services to an Affiliate was subsequently terminated.[7]

23. Further, ATCO Electric stated:

> … the subject "fully burdened costs" have not been broken down to a granular level beyond that dictated by the Code of Conduct. However, what is clear is that the "fully burdened costs" used to price Affiliate services includes all related overhead costs. This has always been the case and the AUC has confirmed, as noted above, that charging these approved overhead rates "results in no net impact on ratepayers…."[8]

24. ATCO Electric asserted that it has always properly applied the ATCO Group Inter-Affiliate Code of Conduct (code of conduct) by charging for services provided to its affiliates on a "Cost Recovery Basis," and that it has always charged affiliates in compliance with the code of

[6] Decision 22094-D01-2017, paragraphs 53-55.
[7] Exhibit 22483-X0006, ATCO Electric written submission, paragraph 7.
[8] Exhibit 22483-X0006, ATCO Electric written submission, paragraph 8.

conduct.[9] ATCO Electric stated that the evidence filed in this proceeding demonstrates that the overhead rate approved in its 2015-2017 GTA forecast does include an amount for forecasted severance costs.[10]

25. In response to a UCA IR, ATCO Electric confirmed that future severance costs are a component of the overhead rate applied to all affiliate transactions under the code of conduct and that the approved affiliate overhead rate for 2015 included forecast 2015 severance costs.[11] Further, the charges to affiliates for the 331 severed positions only amounted to approximately one per cent of total career hours, resulting in the portion of time attributable to affiliates being immaterial.[12]

26. For this reason ATCO Electric submitted:

> … there is no shortfall in the amounts charged by AET in the provision of services and amounts ultimately recovered from affiliates. No further allocation of severance costs to any affiliated company, above what has already been collected in the approved overhead rate, is warranted or justified.[13]

27. The CCA submitted that ATCO Electric's description of how it charged severance costs to affiliates is not compliant with the required standards and rules, nor was ATCO Electric in compliance with the spirit and intent of the standards and rules of the code of conduct. The CCA argued that Section 7.1 of the code of conduct states that it is up to the utility to ensure compliance with the code of conduct. As a result, ATCO Electric's use of an affiliate rate that was not updated is not consistent with the code of conduct, even if the affiliate overhead rate was approved by the Commission. The CCA stated that ATCO Electric was aware that the recovery from affiliates was incorrect, and that compliance with the code of conduct requires ATCO Electric to make the necessary corrections.[14]

28. The CCA acknowledged that ATCO Electric had included severance costs in its overhead rate, but noted that ATCO Electric did not apply the updated overhead rate that accounted for the severance costs. The CCA stated that the IR response that ATCO Electric provided to the Commission was evidence that it did not adjust its affiliate overhead rate to reflect the changes in either its omissions and update (O&U) filing or its update to reflect workforce reductions in Proceeding 20272,[15] where the overhead rates remained at 40 per cent and 30 per cent respectively. The CCA argued that ATCO Electric's failure to use the updated affiliate overhead rate resulted in ATCO Electric not recovering the proper amount from affiliates.[16] It would therefore be incorrect to rely upon the inclusion of severance costs in its affiliate overhead rate as evidence that ATCO Electric had an accurate recovery of severance costs from affiliates.[17]

9 Exhibit 22483-X0044, ATCO Electric argument, paragraph 6.
10 Exhibit 22483-X0044, ATCO Electric argument, paragraph 7.
11 Exhibit 22483-X0020, AET-UCA-2017MAY02-001.
12 Exhibit 22483-X0032, AET-UCA-2017MAY02-003(a).
13 Exhibit 22483-X0044, ATCO Electric argument, paragraph 11.
14 Exhibit 22483-X0043, CCA argument, paragraph 18.
15 Exhibit 22483-X0043, CCA argument, paragraph 19.
16 Exhibit 22483-X0043, CCA argument, paragraphs 22-24.
17 Exhibit 22483-X0043, CCA argument, paragraph 28.

29. The CCA challenged ATCO Electric's statement that: "… [s]everance costs for employees performing affiliate work are very unlikely to be known at the time of providing services to affiliates and therefore cannot be direct charged and recovered from the affiliate." The CCA stated that ATCO Electric's statement would be true for severance costs forecast ahead of time, but the severance costs related to the 2015 work force reduction were known at the time of the application update and could have been directly charged and recovered from affiliates.[18]

30. The CCA noted that the Commission's disallowance of severance costs also relates to ATCO Electric's excess full-time equivalents (FTEs) in 2014.[19]

31. The CCA concluded that ATCO Electric has not filed evidence to vary any part of the Commission's original findings in Decision 20272-D01-2016, and based on the record of the proceeding, the Commission's decision to disallow 35 per cent of ATCO Electric's severance costs remains reasonable.[20]

32. ATCO Electric responded that the CCA's position that it is not in compliance with the code of conduct is incorrect. It stated that the Commission approved the provision of services to Alberta PowerLine based on the approved overhead rate.[21]

33. With regard to the CCA's assertion that the affiliate overhead rate is out of date, ATCO Electric submitted the following table:

Table 1. Comparison of 2015 calculated versus actual/approved affiliate overhead rate

2015	**Original application** (Note 1)	**O&U application update** (Note 2)	**Workforce reductions application update** (Note 3)	**Source**
Calculated forecast affiliate overhead rate - construction projects	**64%** (41% + 23%)	**67%** (42% + 25%)	**73%** (48% + 25%)	AET-AUC-2017MAY02-005(g) Attachment 1
Actual / approved overhead rate used - construction projects	**70%** (40% + 30%)	**70%** (40% + 30%)	**70%** (40% + 30%)	AET-AUC-2017MAY02-005(g) Attachment 1
Variance (under-recovery) / over-recovery	**6%**	**3%**	**(3%)**	

Note 1: Original application submitted on March 16, 2015.
Note 2: O&U application update submitted on October 2, 2015.
Note 3: Workforce reductions application update submitted on December 16, 2015.

Source: Extracted from Exhibit 22483-X0050, ATCO Electric reply argument, PDF pages 5-6.

34. ATCO Electric said the following with respect to the table above in its reply argument:

18 Exhibit 22483-X0043, CCA argument, paragraph 27.
19 Exhibit 22483-X0043, CCA argument, paragraphs 8-12.
20 Exhibit 22483-X0047, CCA reply argument, paragraphs 25-26.
21 Decision 20272-D01-2016, paragraph 1365.

> 13. Based on the information provided above, AET should have been using an affiliate overhead rate of 64% instead of the actual 70% for the period covering January 1, 2015 until its next forecast revision was provided on October 2, 2015. From October 2, 2015 until December 16, 2015, AET should have used an affiliate overhead rate of 67% instead of the actual 70%. Finally, for the very last part of the year, covering December 16, 2015 to December 31, 2015, AET should have used an affiliate overhead rate of 73% as opposed to the actual 70%. Based on the CCA's argument in this area, it appears as though the CCA is of the view that AET's rate (when updated for the impact of severance costs for the workforce reductions in late 2015) should have been used as AET's affiliate rate throughout 2015. There is simply no basis that supports this incorrect assertion. Even if AET had updated its overhead rate, which was not required, it would have reduced this charge for the bulk of 2015, not increased it, as the CCA has concluded. In the end result, the overall impact is immaterial in any event.[22]

35. The UCA argued that ATCO Electric's entire written submission in support of full recovery of severance costs is based on the disallowance being related to the services it provided to affiliates.[23] The UCA noted that the Commission, in Decision 20272-D01-2016, never found that the entire reason for the severance disallowance was related to affiliates. The UCA stated that the Commission gave additional reasons for disallowing severance costs, such as the 20 permanent FTEs in excess of the Commission-approved levels for 2014, and the elimination of more than 80 of what the Commission described as "surplus positions."[24]

36. The UCA filed the following table, which is based on information provided by ATCO Electric in response to a UCA IR:

Table 2. UCA calculation of severance costs associated with services to affiliates

Functional group	Severance	Total time (hrs)	Affiliate time (hrs)	Affiliate time as a % of total time
Capital	$6,568,926	1,365,325	25,947	2%
Corporate Services	$2,908,592	555,990	4,516	1%
Planning and Operations, Lands and Forestry	$2,810,388	493,121	2,490	1%
TOTAL	**$12,287,907**	2,414,436	32,953	**1%**
Capital	$6,568,926	1,365,325	25,947	2%
Operating	$5,718,981	1,049,111	7,006	1%
TOTAL	**$12,287,907**	2,414,436	$32,953	1%
Severance to be reinstated	**Severance**	**Portion related to affiliates**	**Affiliate related severance**	**35% reduction in severance**
Capital	$6,568,926	2%	$124,839	$43,694
Operating	$5,718,981	1%	$38,189	$13,366
	$12,287,907		$163,028	$57,060

Source: Exhibit 22483-X0046, UCA argument, PDF page 9.

22 Exhibit 22483-X0050, ATCO Electric argument, paragraph 13.
23 Exhibit 22483-X0046, UCA argument, paragraph 4.
24 Exhibit 22483-X0046, UCA argument, paragraphs 5-9.

37. The UCA estimated that total severance costs relating to affiliate activities was $163,028 ($124,839 for capital and $38,189 for operating),[25] and concluded that ATCO Electric only attempted to address a minor portion of the disallowance. The UCA submitted that if the Commission were to vary its original decision, it should only reduce the disallowed amount by $57,060, which would represent 35 per cent of the estimated $163,028 of severance costs related to services to affiliates.[26]

38. ATCO Electric responded to the UCA's position that the portion of severance costs paid that relates to work performed for affiliates was immaterial, as shown by the UCA, and has already been collected by using the approved overhead rate.

4.3 Review panel findings

39. ATCO Electric has sought full recovery of its disallowed severance costs on the basis that the Commission erred in determining that it had not recovered amounts related to its affiliate costs.

40. As stated by the Commission at paragraph 54 of Decision 22094-D01-2017, the apportionment of disallowed severance costs related to affiliate services is the scope of the Commission's second stage review.

41. As identified by both the CCA and the UCA, the Commission made additional determinations, beyond amounts not recovered related to affiliate costs, as to why ATCO Electric was not permitted to recover 35 per cent of its severance costs. These additional reasons relate to:

(i) Twenty permanent FTEs in excess of Commission-approved levels for 2014, with which ATCO Electric ended 2014 and started 2015.[27]

(ii) Eighty positions ATCO Electric had forecast to remove in 2016 and 2017 from its FTE complement through transfers to other ATCO companies and other means of attrition.[28]

42. In an IR, the Commission asked ATCO Electric to demonstrate that severance costs were recovered from affiliates in ATCO Electric's revenue requirement.[29]

43. In response, ATCO Electric stated:

> As an overview, the revenue offsets from Affiliates as outlined in AET's GTA Schedule 8-1 includes a recovery of a portion of AET's 2015 forecast severance costs. AET's forecast severance costs are included in the determination of its affiliate overhead rate. The affiliate overhead rate is applied to direct labour costs that AET incurs in the provision of services to affiliates. The labour costs along with the affiliate overhead markup on services is recovered from the Affiliate and is included as a revenue offset in

[25] Exhibit 22483-X0046, UCA argument, paragraph 14.
[26] Exhibit 22483-X0046, UCA argument, paragraphs 15-21.
[27] Decision 20272-D01-2016, paragraph 133.
[28] Decision 20272-D01-2016, Paragraph 129.
[29] Exhibit 22483-X0012, AUC IR AET-AUC-2017MAY02-002(b), PDF page 3.

> the determination of AET's revenue requirement. Through the application of the affiliate overhead rate, AET recovers a portion of its overhead costs (which includes forecast severance costs) and effectively lowers the total amount of overheads that would otherwise be collected from ratepayers through its approved revenue requirement.
>
> In response to AET-AUC-2017MAY02-005(g), AET has provided a schedule which outlines the derivation of its affiliate overhead rate. In response to part (h) of the same question, AET has confirmed that forecast severance costs were included in the line titled "Section 25 Corporate Admin". This confirms that AET has included severance costs in its approved 2015 affiliate overhead rate for the O&M [operating and maintenance] component of 40% and the total affiliate overhead rate of 70% (40% + 30%) applied to construction projects. [30]

44. As mentioned in the IR response quoted above, ATCO Electric provided Exhibit 20272-X1106, AET-AUC-2015DEC30-003, Attachment 1 – Original, Transmission affiliate overhead rate calculation, as requested in an IR by the Commission.[31] An extract from the response is reproduced below.

[30] Exhibit 22483-X0018, AET-AUC-2017MAY02-002(b), PDF page 7.
[31] Exhibit 22483-X0018, AET-AUC-2017MAY02-005(g), PDF page 31.

Table 3. Comparison of ATCO Electric affiliate overhead rate calculations

		Original 2015	O&U 2015	Work force reductions 2015
Total administration & general				
USA account/ schedule	**Description**	**($ million)**	**($ million)**	**($ million)**
566	Transmission miscellaneous	24.7	37.7	37.4
575	Transmission IT support	4.2	4.0	4.0
Schedule 25	Corporate admin	41.7	36.8	45.0
	Head office costs	10.7	10.7	10.7
	Less:			
	Rate hearing (not part of overhead rate)	(2.6)	(2.6)	(2.6)
	Affiliate cost of goods sold	(12.6)	(26.4)	(26.4)
		66.1	60.2	68.2
Total labour				
Schedule 5-4	Transmission	130.5	115.9	113.2
Schedule 25-4	Corporate	30.9	29.5	29.5
		161.4	145.4	142.6
Overhead rate without general recovery of corporate GP&E*		41%	41%	48%
General recovery of corporate GP&E				
	Corporate GP&E (Sch 6-6, 6-7 and 6-8)	5.3	6.3	6.3
	Return/tax/depn rate	13.00%	6.74%	6.74%
		0.7	0.4	0.4
		0.4%	0.3%	0.3%
		41%	**42%**	**48%**
Total overhead rate		**40%**	**40%**	**40%**
On construction projects add:				
	ES&G**			
	Transmission (Tax Schedule 7-3 Direct/Indirect)	36.6	35.7	35.4
	Labour (per above)	161.4	145.4	142.6
		23%	**25%**	**25%**
Additional overhead rate on construction projects		**30%**	**30%**	**30%**

* GPE – general property and equipment.
** ES&G – engineering, supervision and general.
Source: Extracted from Exhibit 22483-X0018, AET-AUC-017MAY02-005(g) Attachment 1, PDF page 31.

45. As stated in its application and as demonstrated in the table above, ATCO Electric did increase the pool of overhead costs to include severance costs in its GTA forecast affiliate overhead charge out rate. This resulted in an increase in the calculated “total overhead rate” from

42 per cent, in its O&U filing, to 48 per cent in its workforce reduction application update. However, the "total overhead rate" applied by ATCO Electric was 40 per cent.

46. The "additional overhead rate on construction projects" was not significantly affected by the workforce reduction update and was calculated to be 25 per cent by ATCO Electric, but ATCO Electric applied 30 per cent to the "additional overhead rate on construction projects." ATCO Electric had calculated the GTA forecast overhead rate on construction projects to be 73 per cent (48 per cent + 25 per cent) but the overhead rate applied by ATCO Electric on projects was 70 per cent (40 per cent + 30 per cent).

47. Based on the calculations in the table above, after the work force reductions were applied, ATCO Electric insufficiently charged out its total overhead rate on its GTA forecast O&M affiliates services by eight per cent (48 per cent - 40 per cent) and by three per cent (73 per cent - 70 per cent) on its GTA forecast affiliate services for construction projects.

48. In Decision 20272-D01-2016, the Commission approved the affiliate overhead rates applied by ATCO Electric.

49. ATCO Electric's argument that the inclusion of severance costs in its calculation of the overhead rate does not, in and of itself, provide evidence that the amounts were recovered from affiliates in its GTA revenue requirement forecast calculation. As illustrated in tables 4 and 5 below, ATCO Electric's revenue offset amounts (revenue recovered from affiliates) were not adjusted after its O&U application update, which was filed on October 2, 2015 (prior to the workforce reductions), nor in any subsequent application adjustments submitted up to and including its final GTA forecast update filed on February 23, 2016 (post work force reductions).

Table 4. Extract of ATCO Electric revenue requirement summary

	2015 O&U application filed October 2, 2015		2015 updated (Exhibit 20272-X0624) application filed October 30, 2015		Severance		2015 application filed December 16, 2015
	($ million)						
Transmission tariffs	714.5		717.6	…..	8.6	…	720.0
Deferral accounts	0.0		0.0	…..	0.0	…	0.0
Total revenues	714.5		717.6	…..	8.6	…	720.0
Fuel	6.4		6.4	…..	0.0	…	6.4
Operating costs	183.0		183.0	…..	8.6	…	185.3
Depreciation	218.4		218.4	…..	0.0	…	218.4
Return on rate base	306.4		309.5	…..	0.0	…	309.5
Income tax expense	31.6		31.5	…..	0.0	…	31.6
Revenue offsets	**(31.3)**		**(31.3)**	**…..**	**0.0**	**…**	**(31.3)**
Total costs	714.5		717.6	…..	8.6	…	720.0

Source: Exhibit 20272-X0708 – Attachment 8.

Table 5. Extract of ATCO Electric revenue requirement summary

	2015 application filed December 16, 2015	Severance		2015 application filed February 23, 2016
		($ million)		
Transmission tariffs	720.0	1.4	…..	721.1
Deferral accounts	0.0	0.0	…..	0.0
Total revenues	720.0	1.4	…..	721.1
Fuel	6.4	0.0	…..	6.4
Operating costs	185.3	1.4	…..	186.8
Depreciation	218.4	0.0	…..	218.4
Return on rate base	309.5	0.0	…..	309.2
Income tax expense	31.6	0.0	…..	31.6
Revenue offsets	**(31.3)**	**0.0**	**…..**	**(31.3)**
Total costs	720.0	0.0	…..	721.1

Source: Exhibit 20272-X1108 – Attachment 6.

50. ATCO Electric requested recovery of $12.6 million relating to severance costs in its 2015 forecast, with 2.4 million being added in its O&U application, $8.6 million added as a result of its work force reduction update, and an additional $1.4 million included in its final application update which was filed on February 23, 2016. The evidence indicates that while forecast severance costs increased over the course of the application updates submitted in Proceeding 20272, the amount of revenue offsets shown in tables 4 and 5 above did not change, although the purpose of these offsets was to “result in no net impact on ratepayers.” The Commission accepts that while ATCO Electric may have included a forecast amount for severance costs in its calculated affiliate overhead rate, the rate applied for the entirety of Proceeding 20272 remained at 40 percent and 70 percent for O&M affiliate services and capital affiliate projects respectively. Neither the affiliate overhead rates nor the revenue offset amounts increased as a result of the increases to severance costs filed as part of the proceeding application updates.

51. Based on the above, ATCO Electric has not provided the Commission with any additional evidence that demonstrates that severance costs related to services provided to affiliates were sufficiently recovered from affiliates, nor that the Commission’s decision to disallow 35 per cent of severance costs should be varied, in part or in full, on the basis that severance costs were included in the calculation and application of the affiliate overhead rate. ATCO Electric’s application to have the Commission vary its original decision in Decision 20272-D01-2016 is denied.

5 Order

52. It is hereby ordered that:

(1) ATCO Electric Ltd.'s requested variance of the disallowed recovery of 35 per cent of the applied-for severance costs, or $4.4 million, in the Stage 2 review of the disallowance of severance costs, is denied.

Dated on December 6, 2017.

Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Anne Michaud
Commission Member

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
ATCO Electric Ltd. Bennett Jones LLP
AltaLink Management Ltd.
Consumers' Coalition of Alberta (CCA)
Office of the Utilities Consumer Advocate (UCA)

Alberta Utilities Commission Commission panel M. Kolesar, Vice-Chair A. Michaud, Commission Member N. Jamieson, Commission Member Commission staff E. von Engelbrechten (Commission counsel) D. Cherniwchan C. Strasser