



FortisAlberta Inc.

2016 Performance-Based Regulation Capital Tracker True-Up

January 11, 2018

Alberta Utilities Commission

Decision 22741-D01-2018

FortisAlberta Inc.

2016 Performance-Based Regulation Capital Tracker True-Up
Proceeding 22741

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Fifth Avenue Place, Fourth Floor, 425 First Street S.W.

Calgary, Alberta

T2P 3L8

Telephone: 403-592-8845

Fax: 403-592-4406

Website: www.auc.ab.ca

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1 Decision summary

1. In this decision, the Alberta Utilities Commission makes determinations on FortisAlberta Inc.'s (Fortis or FAI) 2016 capital tracker true-up application. For the reasons outlined herein, the Commission has determined that:

- Fortis is directed to explain its grouping of the Load Settlement Replacement Project, not previously approved for capital tracker treatment. Fortis' proposed grouping of the remaining projects into programs is reasonable.
- The need for the capital tracker programs or projects included in the 2016 true-up is confirmed.
- The actual scope, level, timing and costs of each of the programs or projects included in the 2016 true-up were prudent, subject to the adjustments and directions by the Commission applicable to the Alberta Electric System Operator (AESO) Contributions Program.
- The previously approved capital tracker projects or programs included in the 2016 true-up continue to meet the requirements of Criterion 2.
- Because of the adjustments and directions by the Commission applicable to the AESO Contributions Program, a reassessment of whether the capital tracker programs or projects included in the 2016 true-up satisfy the two-tiered materiality test requirement of Criterion 3 is required.

2. Based on the above determinations, the Commission could not assess whether the programs or projects included in the 2016 true-up satisfy the accounting test requirement of Criterion 1 and materiality requirement under Criterion 3 and, accordingly, directs Fortis to revise its accounting test for 2016 capital tracker true-up in the compliance filing to this decision.

2 Introduction and procedural background

3. On June 16, 2017, Fortis filed an application with the Commission requesting approval of its 2016 capital tracker true-up amount and associated K factor adjustment to be reflected in its rates under performance-based regulation (PBR).

4. On June 19, 2017, the Commission issued a notice of application that required interested parties to submit a statement of intent to participate (SIP) by June 29, 2017.¹ The Commission received SIPs from the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA), both of whom requested the opportunity to test Fortis' application with a round of information requests (IRs) before commenting on the need for further process.

5. On July 4, 2017, the Commission issued a letter setting out a process schedule for this proceeding.² On August 11, 2017, the UCA³ and the CCA⁴ each filed a letter stating they did not intend to file intervenor evidence and that a written process of argument and reply argument would be sufficient to address the issues in the proceeding. The Commission amended this schedule on August 23, 2017⁵ to allow for a second round of IRs, and then again on September 11, 2017,⁶ to allow for an extension to the deadline for the second round of IRs, as requested by Fortis. The resulting process steps were as follows:

Process step	Deadline dates
IRs to Fortis	July 21, 2017
IR responses from Fortis	August 4, 2017
Round 2 IRs to Fortis	September 7, 2017
Round 2 IR responses from Fortis	September 29, 2017
Argument	October 6, 2017
Reply Argument	October 13, 2017

6. The CCA, the UCA and Fortis each filed reply arguments on October 13, 2017. The Commission considers the record for this proceeding to have closed on this date.

7. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding, as well as relevant portions of the records considered by the Commission in prior Fortis capital tracker proceedings as referenced throughout this decision. 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 a particular matter.

3 Background

8. On September 12, 2012, the Commission issued Decision 2012-237,⁷ which set out the PBR framework and approved PBR plans for the distribution utility services of certain Alberta electric and gas companies (collectively, the distribution utilities), including Fortis. Within these

¹ Exhibit 22741-X0042, notice of application.

² Exhibit 22741-X0045, AUC letter – Process and schedule, July 4, 2017.

³ Exhibit 22741-X0082, UCA letter – Submission on the need for further process, August 11, 2017.

⁴ Exhibit 22741-X0082, CCA letter – Submission on the need for further process, August 11, 2017.

⁵ Exhibit 22741-X0084, AUC letter – Process and schedule update, August 23, 2017.

⁶ Exhibit 22741-X0092, AUC letter – Fortis request for extension, September 11, 2017.

⁷ Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029-1, September 12, 2012.

PBR plans, the Commission approved a rate adjustment mechanism to fund certain capital-related costs. This supplemental funding mechanism was referred to in Decision 2012-237 as a “capital tracker” with the revenue requirement associated with approved amounts to be collected from customers by way of a “K factor” adjustment to the annual PBR rate-setting formula.

9. At paragraph 592 of Decision 2012-237, the Commission set out the criteria that a capital project or program would have to satisfy in order to receive capital tracker treatment approval. The implementation and application of these criteria and the K factor calculation methodology were considered in a 2013 capital tracker proceeding, leading to Decision 2013-435.⁸ The implementation methodology established in Decision 2013-435 is, and has been, used to evaluate the capital tracker programs or projects proposed by the parties throughout the five-year PBR term over the 2013 to 2017 year period.

10. Subsequent to the release of Decision 2013-435, each distribution utility has filed separate capital tracker applications on an annual basis for its specific capital trackers. Section 2.1 of Decision 20497-D01-2016⁹ provides a comprehensive overview of the capital tracker approach under PBR. Fortis’ last such application was filed in 2016 and led to the release of Decision 21538-D01-2017,¹⁰ which dealt with Fortis’ 2015 capital tracker true-up. A summary of Fortis’ prior capital tracker-related decisions and resulting approved K factor amounts is attached as [Appendix 3](#) to this decision.

4 Commission process for reviewing the 2016 capital tracker true-up application

11. The Commission’s process for reviewing the 2016 capital tracker true-up application followed the same steps as those set out in Section 3 of Decision 20497-D01-2016. The three criteria that each project or program must satisfy to receive capital tracker treatment are:

- Criterion 1 – The project must be outside the normal course of the company’s ongoing operations.
- Criterion 2 – Ordinarily the project must be for replacement of existing capital assets or undertaking the project must be required by an external party.
- Criterion 3 – The project must have a material effect on the company’s finances.

12. The Commission indicated it would generally undertake assessments with respect to all three criteria for capital tracker treatment for all capital programs or projects that the Commission has not considered in prior capital tracker decisions. In this decision, the Commission did so for the Load Settlement Replacement Project, not previously approved for capital tracker treatment.

⁸ Decision 2013-435: Distribution Performance-Based Regulation 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

⁹ Decision 20497-D01-2016: FortisAlberta Inc., 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 20497, February 20, 2016.

¹⁰ Decision 21538-D01-2017: FortisAlberta Inc., 2015 PBR Capital Tracker True-Up, Proceeding 21538, January 26, 2017.

13. The Commission did not undertake a reassessment of need under Criterion 1 in the absence of evidence that the project or program was no longer required. However, the Commission did assess the scope, level and timing of each project or program for prudence, and whether the actual costs of the project or program were prudently incurred, as required by the second part of the project assessment under Criterion 1.

14. Similarly, the Commission did not reassess the project or program in the current application against Criterion 2 requirements, unless the driver for the project or program had changed. An assessment of the 2016 capital tracker projects and programs was conducted, with respect to the accounting test under Criterion 1 and materiality test under Criterion 3.

15. The remaining sections of this decision are organized as follows:

- Section 5 provides an overview of the programs or projects that Fortis has included in the capital tracker true-up in 2016 on an actual basis.
- The evaluation of Fortis' proposed capital project groupings is set out in Section 6.
- The assessment of Fortis' programs or projects proposed for capital tracker treatment under Criterion 1 is set out in sections 7 and 8, which deal with the project assessment and the accounting test, respectively.
- The Commission's assessment under Criterion 2 is undertaken in Section 9 and the assessment under Criterion 3 is set out in Section 10.
- Section 11 deals with Fortis' compliance with Commission directions.
- Finally, Section 12 deals with the K factor calculation methodology and the K factor true-up for 2016.

5 Summary of projects included in the 2016 capital tracker true-up application

16. As part of the 2016 capital tracker true-up, Fortis applied for the true-up of nine programs or projects approved by the Commission for capital tracker treatment on a forecast basis in Decision 20497-D01-2016, with subsequent updates in the compliance filing in Decision 21520-D01-2016.¹¹ Fortis also applied for the approval of the Load Settlement Replacement Project, which was not included in its previous capital tracker requests.¹²

17. The projects and programs included in the 2016 capital tracker true-up and the resulting variance from approved forecast, resulting in a K factor true-up for 2016, are set out in the table below.

¹¹ Decision 21520-D01-2016: FortisAlberta Inc., 2014 True-up and 2016-2017 Capital Tracker Compliance Filing, Proceeding 21520, September 15, 2016.

¹² Exhibit 22741-X0038, application, paragraph 7.

Table 1. Applied-for 2016 K factor true-up adjustments

Program/project name	2016 decision K factor ¹³	2016 actual K factor ¹⁴	Variance
	(\$ million)		
Customer Growth Program	26.5	21.2	(5.3)
AESO Contributions Program	15.9	13.1	(2.8)
Substation Associated Upgrades Program	6.1	4.5	(1.6)
Distribution Line Moves Program	3.2	3.0	(0.2)
Urgent Repairs Program, Worst Performing Feeders (WPF) Program, and Compliance, Safety, Aging Facilities, and Reliability Program (CSAR)	5.3	3.7	(1.6)
Distribution Capacity Increases Program	0.8	-	(0.8)
Pole Management Program	6.9	6.4	(0.5)
Cable Management Program	1.4	1.6	0.2
Distribution Control Centre (DCC) / Supervisory control and data acquisition (SCADA) Project	4.9	4.9	-
Load Settlement Replacement Project	-	1.6	1.6
2016 K factor total	70.9	60.1	(10.8)

18. Fortis' Distribution Capacity Increases (DCI) Program was approved for capital tracker treatment for 2016 on a forecast basis. In the application, Fortis confirmed that the DCI Program no longer met the materiality threshold in 2016 on an actual basis. Therefore, the forecast K factor revenue of approximately \$0.8 million collected for the DCI Program in 2016 will be refunded to customers.¹⁵

19. In decisions 2012-237¹⁶ and 2013-435,¹⁷ the Commission indicated that a company may choose to undertake a capital investment prior to applying for capital tracker treatment. In other words, capital tracker treatment may be granted on the basis of actual capital expenditures, without prior approval of capital forecasts for a project. In this application, Fortis has applied for capital tracker treatment on an actual basis for the Load Settlement Replacement Project.

6 Grouping of projects for capital tracker purposes

20. In Decision 2013-435, the Commission determined that the accounting test and the first tier of the materiality test would be applied to approved groupings (i.e., either at a project, or at a program, level). When necessary, however, the Commission would consider the individual component projects comprising the approved groupings in order to assess the need for the capital expenditures and the reasonableness of the forecast costs. The second tier of the materiality test is applied to the aggregate revenue requirement requested for all capital tracker projects.¹⁸

¹³ Decision 21520-D01-2016, Table 2.

¹⁴ Exhibit 22741-X0038, application, Table 1.

¹⁵ Exhibit 22741-X0038, application, paragraph 12.

¹⁶ Decision 2012-237, paragraphs 614-615.

¹⁷ Decision 2013-435, paragraph 48.

¹⁸ Decision 2013-435, paragraph 407.

The Commission also determined that the reasonableness of the grouping of capital projects would be assessed on a case-by-case basis for each individual company.¹⁹

21. In the application, Fortis indicated it employed the same general approach to grouping that was used in its previous capital tracker applications and that was approved in related Commission decisions. Fortis indicated it complied with the Commission directions related to grouping from Decision 20497-D01-2016;²⁰ specifically, it grouped the Urgent Repairs, WPF and CSAR programs together. Fortis also noted it complied with the Commission directions from Decision 21538-D01-2017²¹ related to grouping of the incremental cost of conductor upgrades within the Pole Replacement Program. Fortis' response to these directions is discussed in Section 7.1.6.2.

22. Fortis did not provide the specific reasons for grouping the new Load Settlement Project as a separate capital tracker project, apart from a general statement in the application that "FortisAlberta's projects and programs are grouped to reflect how the Company manages its operations and costs."²²

Commission findings

23. In previous capital tracker decisions, most recently in Decision 20497-D01-2016, the Commission recognized the significance of project grouping and provided guidance on how capital projects and programs should be grouped.²³ Among other matters, the Commission indicated that because project grouping is an accounting exercise, the optimal manner by which a group of projects is managed by Fortis is not, by itself, a valid reason to group the projects for capital tracker treatment.²⁴ The Commission reiterated that grouping must allow for a meaningful application of the accounting test and the materiality test and stated:

58. In determining the correct grouping to be used by Fortis, it is important to consider the logic behind the accounting test, which the Commission stated in Decision 2013-435 was "to compare the forecast or actual revenue requirement for [a] project to the going-in revenue historically associated with a similar type of capital expenditures..."²⁵ Any grouping that attempts to match current capital expenditures with going-in revenues that, historically, are not similar in nature would undermine the purpose of the accounting test. Having groupings that are highly aggregated could have this effect by making revenue requirement comparisons for similar types of expenditures difficult or meaningless. Conversely, having groupings that are highly disaggregated is also an issue because relevant historical costs will not be adequately captured in the accounting test. For this reason, it is important to ensure that capital expenditures with going-in revenues that historically are similar in nature are adequately grouped together.²⁵

⁵⁴ Decision 2013-435, paragraph 262.

¹⁹ Decision 2013-435, paragraph 406.

²⁰ Decision 20497-D01-2016, paragraphs 61-62.

²¹ Decision 21538-D01-2017, paragraphs 179-180.

²² Exhibit 22741-X0038, application, paragraph 15.

²³ Decision 20497-D01-2016, paragraphs 55-58.

²⁴ Decision 20497-D01-2016, paragraph 59.

²⁵ Decision 20497-D01-2016, paragraph 58.

24. As further discussed in Section 7.3, under the Load Settlement Replacement Project, Fortis implemented new systems and applications to replace functionality previously provided by the Energy Vision Enterprise (EVE) and Post Final Adjustment Mechanism (PFAM) applications. In this regard, the Commission observes that while Fortis did include some of the historical costs in its accounting test for the Load Settlement Replacement Project, it is not clear to what these capital additions relate (e.g., old EVE and/or PFAM applications).²⁶ Moreover, there are some expenditures related to load settlement that remain in other, non-capital tracker project categories.²⁷

25. In light of the above, the Commission cannot, in this decision, make a determination on the reasonableness of grouping the Load Settlement Replacement Project as a separate capital tracker project. The Commission directs Fortis, in the compliance filing to this decision, to explain the activities that justify the historical capital additions (from 2005 to 2012) included in the accounting test for the Load Settlement Replacement Project. The Commission further directs Fortis to identify all projects in its accounting test that include historical capital additions associated with the old EVE and/or PFAM applications. Finally, Fortis is directed to explain why it did not group all of its expenditures related to load-settlement together under the Load Settlement Replacement Project.

26. The Commission did not re-evaluate the groupings for the remaining capital tracker programs or projects, because the groupings are either the same as those approved in previous decisions dealing with Fortis' capital tracker applications or are reflective of the revised grouping of certain projects as directed in Decision 20497-D01-2016.²⁸ These groupings are approved as filed.

7 Project assessment under Criterion 1 – the project must be outside of the normal course of the company's ongoing operations

27. As discussed in Section 4 of this decision, each of Fortis' programs or projects included in the 2016 true-up was evaluated against the second part of the project assessment requirement of Criterion 1: whether the actual scope, level, timing and costs of the project are prudent. For the Load Settlement Replacement Project, which was not previously approved for capital tracker treatment, the Commission also assessed the need for this project under Criterion 1.

28. The Commission evaluated the Fortis business cases, engineering studies, cost-related information, and related evidence and argument against each of the project assessment minimum filing requirements for capital tracker applications set out in Decision 3558-D01-2015.²⁹ In this decision, the Commission has commented only on those aspects of the minimum filing requirements that it considered were not addressed sufficiently in Fortis' evidence or were

²⁶ Exhibit 22741-X0002, Appendix B – 2016 Capital Tracker Schedules, Schedule 4, Fortis line 48 (Excel line 55) indicates that the 2012 going-in revenue associated with this project is \$0.341 million, with Schedule 6, Fortis line 48 (Excel line 55) showing capital additions in 2005, 2007 and 2010-2012.

²⁷ Exhibit 22741-X0002, Appendix B – 2016 Capital Tracker Schedules, Schedule 14, Fortis line 45 (Excel line 52), "Software - Load Settlement" under the "Information Technology – Software" category.

²⁸ Decision 20497-D01-2016, paragraphs 61-62.

²⁹ Decision 3558-D01-2015: Distribution Performance-Based Regulation: Commission-initiated Proceeding to Consider Modifications to the Minimum Filing Requirements for Capital Tracker Applications, April 8, 2015, Appendix 3.

otherwise raised as an issue in the proceeding. In its 2017 true-up capital tracker application, Fortis is directed to continue to provide similar information with respect to each of the minimum filing requirements, including updated business cases, engineering studies and cost-related information, including actual costs by cost category and unit costs, in sufficient detail to allow an evaluation of the prudence of its incurred costs.

29. The balance of this section is organized as follows:

- Section 7.1 sets out the Commission's project assessment under Criterion 1 of Fortis' programs or projects previously approved for capital tracker treatment in either Decision 2013-435, Decision 3220-D01-2015,³⁰ Decision 20351-D01-2015, or in Decision 20497-D01-2016.
- Section 7.2 sets out the project assessment for the Load Settlement Replacement Project.

7.1 Previously-approved capital tracker programs or projects 2016

30. This section addresses the true-up of 2016 actual expenditures for Fortis' programs or projects. Table 2 summarizes these programs or projects and shows the 2016 actual capital additions on which the 2016 capital tracker true-up is based and the 2016 forecast capital additions approved in Decision 20497-D01-2016 or in the associated compliance filing Decision 21520-D01-2016. All programs or projects received capital tracker treatment approval on a forecast basis in Decision 21520-D01-2016, with the exception of the Load Settlement Replacement Project, which is included in the table for information purposes only.

Table 2. 2016 capital additions for capital tracker programs or projects

Program/project name	Capital additions		
	2016 approved forecast	2016 actual	Variance
	(\$ million)		
Customer Growth Program	111.3	103.9	(7.4)
AESO Contributions Program	90.0	37.9	(52.1)
Substation Associated Upgrades Program	17.3	22.4	5.1
Distribution Line Moves Program	12.6	17.3	4.7
Urgent Repairs Program, WPF Program, and CSAR Program	31.1	31.8	(0.7)
Distribution Capacity Increases Program	13.9	-	(13.9)
Pole Management Program	40.7	46.2	5.5
Cable Management Program	6.5	9.5	3.0
DCC/SCADA Project	4.4	6.1	1.7
Load Settlement Replacement Project [not previously approved]	-	12.7	12.7
Total	327.8	287.8	(40.0)

31. Sections 7.1.1 to 7.1.8 below deal with each of Fortis' previously approved programs or projects included in the 2016 capital tracker true-up.

³⁰ Decision 3220-D01-2015: FortisAlberta Inc., 2013-2015 PBR Capital Tracker Application, Proceeding 3220, Application 1610570-1, March 5, 2015.

7.1.1 Customer Growth Program

32. The Customer Growth Program consists of the installation of overhead and underground distribution facilities to connect new service locations to Fortis' distribution system, and the upgrading of existing service connections, as requested by customers. Fortis provided details of the Customer Growth Program in Appendix A-1 of the application.³¹ The need for this program as part of the project assessment under capital tracker Criterion 1, was approved previously in Decision 2013-435³² and later in decisions 3220-D01-2015³³ and 20497-D01-2016.³⁴

33. The 2016 approved forecast capital additions for this program were \$111.3 million, while the actual 2016 capital additions were \$103.9 million, resulting in a \$7.4 million negative variance.³⁵ The 2016 approved forecast capital expenditures for this program were \$116.1 million, while the actual 2016 capital expenditures were \$101.8 million, resulting in a \$14.3 million negative variance.³⁶

34. Fortis provided the following table showing the 2016 new service locations, unit costs and capital expenditures:

Table 3. Customer Growth Program 2016 new service locations, unit costs and capital expenditures

	2016 forecast	2016 actual	Variance over/(under)
New service locations (number)			
Rate 11 – Residential	8,154	7,679	(475)
Rate 21 – Farm	242	162	(80)
Rate 26 – Irrigation	125	139	14
Rates 41 through 63 – General Service/Oil & Gas	2,240	1,738	(502)
Unit costs (\$ thousand)			
Rate 11 – Residential	3.9	6.5	2.6
Rate 21 – Farm	24.0	30.1	6.1
Rate 26 – Irrigation	39.8	33.1	(6.7)
Rates 41 through 63 – General Service/Oil & Gas	44.3	32.8	(11.5)
Gross capital expenditures (\$ million)			
Rate 11 – Residential	31.7	49.9	18.2
Rate 21 – Farm	5.8	4.9	(0.9)
Rate 26 – Irrigation	5.0	4.6	(0.4)
Rates 41 through 63 – General Service/Oil & Gas	99.1	56.9	(42.2)
Customer growth expenditures	141.6	115.6	(26.0)
Customer contributions	(25.5)	(13.9)	11.6
Net capital expenditures	116.1	101.8	(14.3)

Source: Exhibit 22741-X0037, Appendix A-1, Table 2.

35. Fortis explained that the increase in the capital expenditures and unit cost for the residential rate class was attributed to the momentum of strong residential construction demand

³¹ Exhibit 21538-X0037, Appendix A-1, Customer Growth Program.

³² Decision 2013-435, paragraph 1023.

³³ Decision 3220-D01-2015, paragraph 185.

³⁴ Decision 20497-D01-2016, paragraph 186.

³⁵ Exhibit 22741-X0038, application, paragraph 42, Table 3.

³⁶ Exhibit 22741-X0037, Appendix A-1, Table 4, PDF page 19.

in 2015 carrying over to 2016, and expanded project scope for residential construction.³⁷ The decrease in the farm rate class was attributed to fewer service requests.³⁸

36. The decrease in the capital expenditures and unit cost for the irrigation rate class was a result of the reduction in average project scope.³⁹ The decrease in the unit cost for the general service/oil and gas rate class was related to reduced capital spending by oil and gas customers. Fortis explained that since mid-2014, it has received a lower volume of large service requests because of the decline in the price of oil.⁴⁰

37. Fortis attributed the \$11.6 million decrease in customer contributions to the decline in the number of oil and gas service requests, partially offset by an increase in the residential rate class contributions associated with expanded project scope.⁴¹

38. In an IR response to the Commission, Fortis provided an explanation of the unit costs increase for the farm rate class. These unit costs increased due to the expanded scope of projects, including an increased number of poles, due to a higher proportion of customer service locations that were further away from existing power lines, a higher proportion of three-phase to single-phase services, and larger transformer sizes per service location.⁴²

39. No issues were raised by the UCA or the CCA in respect of the Customer Growth Program.

Commission findings

40. In Decision 20497-D01-2016, the Commission approved the need for the Customer Growth Program for the purposes of capital tracker treatment for 2016, and determined that the proposed scope, level, timing and forecast costs for this program were reasonable.

41. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a program was not required in 2016, there is no need to demonstrate that a program was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Customer Growth Program was not required in 2016.

42. With respect to the scope, level and timing of the program carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$103.9 million for 2016 associated with this program and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the actual costs were \$7.4 million lower than the approved forecast primarily because of the reduced capital spending by oil and gas customers, and a decline in the project scope for the irrigation rate class, partially offset by the momentum of strong residential construction demand in 2015 carrying over to

³⁷ Exhibit 22741-X0037, Appendix A-1, PDF page 17.

³⁸ Exhibit 22741-X0037, Appendix A-1, PDF page 18.

³⁹ Exhibit 22741-X0037, Appendix A-1, PDF page 18.

⁴⁰ Exhibit 22741-X0037, Appendix A-1, PDF page 18.

⁴¹ Exhibit 22741-X0037, Appendix A-1, PDF page 18.

⁴² Exhibit 22741-X0077, FAI-AUC-2017JUL21-001.

2016, and expanded project scope for residential construction. The Commission has also reviewed the costs of the actual capital additions for this capital tracker program in light of the evidence supporting these costs, and finds the actual costs to be prudent and the variance explanations to be reasonable. Accordingly, the Customer Growth Program satisfies the project assessment requirement of Criterion 1 in 2016.

7.1.2 AESO Contributions Program

43. The AESO Contributions Program recognizes the cost to Fortis of contributions paid to the AESO for the construction of transmission facilities that have been approved by the Commission and are required to supply aggregate load growth in Fortis' distribution area. Fortis noted that the need for this program, as part of the project assessment under capital tracker Criterion 1, was approved in Decision 2013-435,⁴³ and later in Decision 3220-D01-2015.⁴⁴ Fortis filed details of the AESO Contributions Program in Appendix A-2 of the application.⁴⁵ The Commission finds no evidence on the record of this proceeding to indicate that this program was not required in 2016 and, therefore, as noted in Section 4, it did not re-evaluate the need for this program, as would otherwise be required under the project assessment component of Criterion 1.

44. In the current proceeding, Fortis is seeking the approval of a proposed true-up of forecast AESO contribution amounts for the year 2016 as determined in Decision 20497-D01-2016, in relation to Fortis' actual expenditures on AESO contributions for the same year. Specifically, in Decision 20497-D01-2016, the Commission approved forecast capital additions for this program in the amount of \$90 million.⁴⁶ In Appendix A-2 and other attachments related to its AESO Contributions Program filed with the application, Fortis indicated its actual 2016 capital additions totalled \$37.9 million, resulting in a variance of approximately \$52.1 million to be refunded to Fortis customers.⁴⁷

45. One of the key elements that the Commission notes in the determination of the prudent expenditures associated with the AESO Contributions Program is that it is not possible to know the actual contribution amount payable by the utility for a number of years after project completion. In Decision 21538-D01-2017, dealing with Fortis' 2015 capital tracker true-up, the Commission highlighted the difficulties in truing up the AESO Contributions Program. The Commission observed that it is often not possible to know the actual contribution amount payable by the utility for a number of years after project completion, since the costs of the program, even after completion, are affected by the continuing interaction of Fortis, the AESO, and the transmission facility owner (TFO) in the planning, design, and execution of new connection projects. Specifically, AESO contribution amounts on projects are subject to ongoing update and revision as project timing, design and cost estimates change over time. The capital tracker mechanism used for 2013-2017 PBR plans, with its annual true-up to actual expenditures, is conducive to revising the AESO contribution amounts as more recent information becomes available. However, the Commission has indicated that Fortis' transition to the next generation PBR plan, which no longer employs the capital tracker mechanism in its current form, may necessitate a determination of final 2013-2017 project costs, prior to the actual AESO

⁴³ Decision 2013-435, paragraph 1031.

⁴⁴ Decision 3220-D01-2015, paragraph 200.

⁴⁵ Exhibit 22741-X0036.

⁴⁶ Decision 20497-D01-2016, paragraph 185.

⁴⁷ Exhibit 22741-X0036, Table 3, and PDF pages 16-17.

contribution amounts being determined in subsequent TFO and Fortis capital-related true-up proceedings, as discussed further below.

46. More specifically, in Decision 20414-D01-2016 (Errata),⁴⁸ which set out the parameters of the 2018-2022 PBR plans for distribution utilities, including Fortis, the Commission determined that capital is to be divided into two categories: Type 1 and Type 2 capital. For Type 1 capital, the Commission approved a modified capital tracker mechanism. For Type 2 capital, the Commission approved a K-bar mechanism that provides an amount of capital funding for each year of the 2018-2022 PBR term based on capital expenditures incurred in the previous PBR term, rather than determining capital funding requirements using a cost-of-service mechanism like capital trackers.⁴⁹ The Commission further noted that the determination of the base K-bar funding for the first year of the new PBR term required that the final approved capital expenditure amounts for the years prior to 2018 be determined. Further, the Commission decided that the portion of the rebasing revenue requirement associated with capital tracker projects would be calculated using approved actual capital additions following the determination of final approved K factor amounts for 2016 and 2017 with a subsequent going-in rates adjustment to reflect the approved actual additions. Therefore, reasoned judgement likely would be required to determine the point in time at which 2013-2017 capital tracker project costs should be considered final for the purposes of finalizing the rebasing revenue requirement and K-bar amounts.

47. Taking into account the effect of these considerations on the determination of final 2013-2017 AESO contribution amounts and, specifically, the likely need to use reasoned judgement to determine the final 2013-2017 costs, in Decision 21538-D01-2017, the Commission directed Fortis to provide the most up-to-date actual costs at the time of its 2016 capital tracker true-up application. In addition, the Commission directed Fortis to give its opinion on whether the 2013-2015 actual AESO contribution costs could be considered final. If Fortis could not give such an opinion at this time, the Commission directed Fortis to outline which other process steps and associated timelines would be required to consider the actual costs, in each year, to be final.⁵⁰ In this decision, the Commission will refer to this direction as Direction 6 from Decision 21538-D01-2017.

48. The Commission also directed Fortis to file a proposal to determine final actual AESO Contributions Program amounts for each of the years 2013 to 2017, along with a proposal for incorporating these final amounts into the going-in rates and base K-bar for the next PBR term.⁵¹ In this decision, the Commission will refer to this direction as Direction 7 from Decision 21538-D01-2017.

49. In light of the above, a key component of the Commission's consideration of the true-up of the 2016 AESO Contributions Program is Fortis' response to Direction 6 on whether AESO contribution amounts should be finalized in respect of a specific year. Central to this consideration is the manner by which Fortis has proposed to finalize its contribution amounts. In determining this issue, the Commission will also consider Fortis' response to Direction 7

⁴⁸ Decision 20414-D01-2016 (Errata): 2018-2022 Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Proceeding 20414, February 6, 2017.

⁴⁹ Decision 21538-D01-2017, paragraph 230.

⁵⁰ Decision 21538-D01-2017, paragraph 232, Direction 6.

⁵¹ Decision 21538-D01-2017, paragraph 233, Direction 7.

(provided in Proceeding 22394 and also on the record of this current proceeding),⁵² which is relevant to the issue.

50. Consequently, the Commission's assessment of Fortis' proposed true-up for 2016 in this section involves determinations with respect to each of the following key issues:

- whether the AESO Contribution amount that Fortis has represented as actual for the year 2016 may be deemed to be final, as addressed in Section 7.1.2.1.
- whether Fortis' practices with respect to contracting for demand transmission service (DTS) under the AESO tariff, which affects the AESO Contribution amounts on specific projects, is reasonable, as addressed in Section 7.1.2.2.
- the effect of other proposed changes to AESO contributions, those that are not related to Fortis' practices employed in setting DTS contract levels under the AESO tariff, on the Commission's ability to deem Fortis' proposed true-up for the year 2016 to be final, which is addressed in Section 7.1.2.3.
- the effect of Fortis' role in transmission connection project design decisions on the Commission's ability to determine the prudence of the AESO Contribution amounts attributed to specific connection projects, which is addressed in Section 7.1.2.4.

7.1.2.1 Fortis' proposition that AESO contributions be deemed final in each year

51. In responding to Direction 6 from Decision 21538-D01-2017, Fortis explained that in Appendix A-2 to the present application, it provided the description of the AESO Contributions Program reflecting actual costs as known to Fortis at the time of the application.⁵³ Also in response to Direction 6, Fortis stated that, each year, it recognizes contributions paid to the AESO in that year for financial reporting purposes, and incorporates them into rate base. Fortis noted that such payments may include costs or refunds related to current projects, and further amounts related to projects originating in prior years.

52. In response to a Commission information request, Fortis agreed that the amount of the AESO contribution associated with specific AESO projects included in each year's capital tracker true-up application is not necessarily final.

53. Specifically, in information request FAI-AUC-2017JUL21-032, the Commission asked:

To the extent Fortis has included pre-2016 project true-ups and has provided similar entries in AESO contribution true-ups filed in previous applications, does Fortis agree that the final amount of the contribution attributed to a specific project is not necessarily finalized with each year's true-up application? If Fortis does not agree, please fully explain Fortis' position.

54. Fortis responded as follows:

FortisAlberta agrees. Contributions to the AESO are required to fund the development, application and construction of transmission facilities, as ultimately approved by the AUC, to serve customers in FortisAlberta's service area. Under the AESO's Terms and

⁵² Exhibit 22741-X0077, FAI-AUC-2017JUL21-010, PDF pages 23-27.

⁵³ Exhibit 22741-X0038, paragraph 21.

Conditions of Service, distribution utilities contribute a portion or all of the transmission interconnection costs where the total transmission project cost is higher than the amount that the AESO will invest under its investment policy. FortisAlberta follows the AESO's connection process and issues payments at certain steps as required under this process.

Given the typically multi-year nature of these projects and the related AESO Contributions, such payments may include amounts related to current projects, as well as further amounts related to projects originating in prior years. Each year, FortisAlberta recognizes for financial reporting purposes, and incorporates into rate base, the contributions paid to the AESO in that year. FortisAlberta recognizes that there may be costs or refunds associated with specific AESO projects over multiple years. Therefore, while the final amount of the total contribution may not be known for quite some time, the contribution required in each year is known and paid according to the AESO connection process.⁵⁴

55. Notwithstanding this response, Fortis indicated that because costs or refunds are reflected in the final actual AESO contribution amounts in the year in which they are paid or refunded, any AESO contributions paid in each year from 2013 to 2017, inclusive of capital tracker true-up results, should be considered to be the final actual AESO contributions for each of those years.⁵⁵

Commission findings

56. In response to FAI-AUC-2017JUL21-032, Fortis acknowledged that additional true-ups of AESO contributions associated with specific AESO projects may continue for several years after the first year in which Fortis records its actual expenditures on AESO contributions. Given this, the Commission does not accept Fortis' proposition that actual AESO contribution amounts expended by Fortis in each year should be considered to be final.

57. At paragraph 223 of Decision 21538-D01-2017, the Commission found that it could not make a final determination in respect of Fortis' 2015 AESO contributions amount. The Commission also pointed out in its findings in that decision that the costs of a transmission connection project giving rise to an AESO contribution by Fortis, may be subject to substantial delay, due to the need to examine the TFO's costs in a direct assign capital deferral account (DACDA) proceeding.⁵⁶ More importantly, the Commission highlighted that Fortis' "final" 2015 AESO contribution true-up included a line item for "Transmission project true-ups from previous years," which reflected adjustments recognized in 2015 for AESO contribution projects already considered in prior Fortis capital tracker true-up proceedings.

58. As a result, the Commission finds that Fortis' view that its actual expenditures on AESO contributions in each year can be considered to be final in spite of Fortis' acknowledgment in FAI-AUC-2017JUL21-032 that additional reconciliations may continue for several years, is fundamentally at odds with the Decision 21538-D01-2017 findings discussed above.

59. In support of this finding, the Commission notes that in the current proceeding, Fortis provided a more comprehensive continuity schedule of AESO contribution amounts applied to specific projects in response to FAI-AUC-2017SEP07-002. Fortis' response to this information request illustrates the extent to which many or most of the Fortis transmission connection

⁵⁴ Exhibit 22741-X0077, PDF pages 68-69.

⁵⁵ Exhibit 22741-X0038, paragraph 22.

⁵⁶ Decision 21538-D01-2017, paragraph 221.

projects giving rise to AESO contributions, have been subject to further true-up after the initial capital tracker true-up proceeding in which the approved forecast AESO contribution for a specific year has been compared with actuals for the project in that year.⁵⁷

60. Further, as discussed in greater detail in Section 7.1.2.2 below, Fortis indicates that it contracts for the minimum demand transmission service (DTS) level necessary to accommodate the load expected at the time of initial project completion. In doing so, Fortis creates a need for additional true-ups after the initial year of true-up for a specific year, to ensure the pass-through to customers of contribution refunds, as Fortis increases DTS contract capacity to match load growth over time.

61. The values of AESO contribution amounts necessarily change through time. This fact is important because the Commission is concerned that Fortis will enjoy a windfall gain as a result of its proposal to suspend the refund of AESO contributions related to the recalculation of AESO contributions, as DTS contract levels are increased in the future. That is, if the Commission were to accept Fortis' proposal to deem AESO contributions as final in each year, Fortis would enjoy a windfall gain, as it moves from the current capital-tracker-based PBR regime into the next generation PBR regime. The Commission expands on the explanation of this concern in more detail in Section 7.1.2.2 below.

62. Based on these reasons, which are developed in more detail in Section 7.1.2.2, the Commission rejects Fortis' proposal that contributions be deemed to be final each year and its related proposal that 2016 AESO contribution capital tracker be considered final upon the issuance of the Commission's decision in respect of this application.

7.1.2.2 Effect of Fortis DTS contracting practices on AESO contributions

63. As noted in Section 7.1.2 above, Fortis practices for determining the contract level of DTS under the AESO's tariff, affect the AESO contribution amounts on specific projects and, therefore, also affect the AESO contribution amount for 2016 that Fortis is proposing to true up in its application. Consequently, in order to support the finding in the previous section, as well as determinations regarding the prudence of the AESO contributions for 2016 being proposed in this application, it is important to understand how Fortis determines its load forecasts and its DTS contract levels.

64. In Decision 21538-D01-2017, the Commission found that while the AESO determined the amount of AESO contributions for specific projects in construction contribution decisions (CCDs), the AESO's calculations are essentially mechanical and reflect the residual amount after the allowable maximum investment allowance provided under the AESO tariff is subtracted from the total cost of the project.⁵⁸ The Commission also observed that decisions issued prior to Decision 21538-D01-2017 may not have recognized the extent to which Fortis decisions, especially its decision on the level of the DTS contract capacity increment selected for each project, determined the maximum investment level applied to each project and, consequently, largely determined the AESO contribution that Fortis would be required to fund.⁵⁹

⁵⁷ Exhibit 22741-X0094, Attachment FAI-AUC-2017SEP07-002.01.

⁵⁸ Decision 21538-D01-2017, paragraph 234.

⁵⁹ Decision 21538-D01-2017, paragraph 235.

65. In consideration of the above, at paragraph 240 of Decision 21538-D01-2017, the Commission set out Direction 8, which states, in part,⁶⁰ the following:

In its future capital tracker true-up applications, Fortis is directed to describe how the load forecast and DTS contract levels for each project were determined, and compare this forecast with the actual load materialized to date. ...

66. In response to this part of Direction 8, Fortis explained that the need for development (NFD) documents prepared in respect of its transmission connection projects include load forecasts based on Fortis' annual distribution system load forecast, which, in turn, reflects Fortis' forecasts of load on each 25 kilovolt (kV) distribution feeder connected to its transmission connected substations, referred to as Point of Delivery (POD) substations.

67. Fortis went on to explain that it uses a "bottom up" load forecast approach that examines local conditions that are driving expected loads to be served at its distribution feeder, and combines this with an assessment of statistical trends, contracted load or developer commitments, and distribution system planning reflecting its engineering judgement to identify the upper bounds of the peak capacity that will be required at each of its POD substations. Fortis noted that while end-use customers do not always make full use of their committed contract capacity, it is important to take into account the fact that Fortis has a statutory obligation to comply with the load requirements prescribed in its contracts. Finally, Fortis explained that after applying a coincidence factor to individual feeder peaks, it totals the feeder information to predict the loading on the substation transformer to which the 25 kV feeders are connected.

68. Fortis submitted that, generally,⁶¹ it sets the DTS level for each transmission connection project from the load forecast table from the NFD document, for the preferred solution, for the project. Because the NFD load forecast is shown in apparent power units (i.e., megavolt amperes) while AESO DTS contracts are in real power units (i.e., megawatts), Fortis multiplies its POD-level forecast by a POD load coincidence factor of 0.9 to determine the DTS level that it requests from the AESO. Fortis stated that the DTS level it requests reflects the predicted peak DTS load that it anticipates during the year of each project's expected in-service date (ISD).

69. In the current proceeding, Fortis has also been required to address Commission questions on the trade-off between DTS contract levels and the AESO contributions. Specifically, the Commission has sought to understand the reasonableness of Fortis' practice of basing its DTS contract level on the level of the forecast load in the initial year of operation following the completion of a project, in light of the possibility that this approach limits the maximum investment coverage that Fortis obtains under the AESO tariff. This limit on the maximum investment coverage implies that AESO contributions, which must be funded by Fortis customers, may end up being higher than they would have been had Fortis contracted for higher DTS levels for its transmission connection projects.

⁶⁰ Direction 8 from Decision 21538-D01-2017 addressed both Fortis practices with respect to setting DTS contract levels and also requested that Fortis provide information required to assess the prudence of Fortis' actions in respect of the transmission connection projects giving rise to AESO contributions. The Commission deals with the latter subject matter of Direction 8 in Section 7.1.2.4 below.

⁶¹ In Exhibit 22741-X0036, at PDF page 12, Fortis noted that in the event an alternate solution rather than the preferred solution in the NFD document is adopted, Fortis recalculates its DTS requirements to reflect changes, if any, that may occur as a result of the adoption of an alternate solution.

70. For example, in FAI-AUC-2017JUL21-035, the Commission asked Fortis the following question:

To the extent Fortis has a responsibility to act prudently in the interests of its ratepayers, does Fortis agree that a decision by Fortis not to contract for a level of DTS contract capacity that would maximize the investment coverage available to Fortis may be considered to be imprudent? If Fortis does not agree, please fully explain Fortis' position on this issue.

71. Fortis responded as follows:

Per the ISO tariff as approved by the Commission, the “investment coverage available” is only one consideration in the prudent arrangement of system access service on behalf of FortisAlberta's customers. For example, another factor that is considered is that DTS contract capacity, as selected by FortisAlberta as the market participant, has ongoing ISO tariff billing implications for customers in that some DTS charges are billed on “DTS billing capacity”. In the ISO's *Consolidated Authoritative Document Glossary*:

“**billing capacity**” means, at a point of delivery, the highest of:

- (i) the highest 15-minute **metered demand** in the settlement period;
- (ii) 90% of the highest **metered demand** in the 24-month period including and ending with the **settlement period**, but excluding any months during which commissioning occurs; or
- (iii) 90% of the **contract capacity** or, when the **settlement period** contains a transaction under Rate DOS, 100% of the **contract capacity**.

If FortisAlberta were to select a contract capacity in excess of its forecast DTS MW for the POD, exclusively for purposes of attracting additional investment through the ISO tariff, this would result in higher ongoing DTS billing capacity charges, which would be flowed through to customers through the transmission component of FortisAlberta's distribution tariff. As such, FortisAlberta's practice of selecting a DTS contract capacity that aligns with its forecast DTS MW for the POD is the best contracting approach, on balance, in its responsibility to act prudently in the interests of customers.⁶²

Commission findings

72. The portion of Direction 8 from Decision 21538-D01-2017 set out above required Fortis to explain how it set the DTS level and to provide a comparison of its DTS forecasts with actual load that has materialized to date. The Commission considers that the explanation provided by Fortis in Appendix A-2⁶³ and the comparison of forecast peak loads at ISD to the DTS levels requested by Fortis for 2016 in Appendix A-2, Attachment 5,⁶⁴ have adequately addressed these aspects of Direction 8.

73. As noted above, Fortis' response to FAI-AUC-2017JUL21-035 explains its rationale for tending to minimize the level of DTS that it contracts for with the AESO, with the effect that AESO contribution amounts are correspondingly higher than they would be if Fortis instead

⁶² Exhibit 22741-X0077, PDF pages 73-74.

⁶³ Exhibit 22741-X0036, PDF pages 11-13.

⁶⁴ Exhibit Exhibit 22741-X0020.

maximized the level of DTS that it contracts for, thereby giving Fortis higher investment coverage under the AESO tariff's contribution policy.

74. The Commission notes that given the definition of "billing capacity" as described in the ISO's *Consolidated Authoritative Document Glossary* referenced by Fortis, it is possible for transmission billings to increase as a result of increases in actual peak load at a transmission POD or as a result of an increase in the DTS level that Fortis may contract for at the POD. This is notable because it means that if Fortis did not choose to increase its DTS contract capacity as load increased, transmission billings, which Fortis flows through to its customers, would increase but because there has been no change in the DTS contract capacity, Fortis would not automatically trigger a refund in AESO contributions pursuant to subsection 2 of Section 9 of the ISO tariff.⁶⁵ However, Fortis has indicated that for the Leduc Project, it has planned to request an increase in the DTS level for that project, which would, of course, trigger a credit from the AESO for capital contributions made to that project.⁶⁶

75. While Fortis' response to FAI-AUC-2017JUL21-035 was limited, and was not tested extensively in the current proceeding, the Commission has considered Fortis' explanation and considers that it may be reasonable. Specifically, to the extent that the Commission expects Fortis to request contribution refunds for other projects when DTS levels are increased, and expects that Fortis would apply such refunds as adjustments to AESO contribution capital trackers to the benefit of its customers, the Commission accepts that, on balance, Fortis' practice of contracting initially for the minimum level of DTS required to match its initial load may provide overall benefits to its customers. Because "billing capacity" is applied to both the regional system and the POD charge elements of the AESO DTS rate,⁶⁷ while the investment allowance is only an offset to the POD charge component of the DTS rate, it is plausible, as Fortis contends, that the benefit to customers of minimizing DTS billing by minimizing contracted DTS levels could outweigh the disadvantage to customers of paying higher AESO contributions than required to accommodate the initial load.

76. In acknowledging that there may be an overall benefit to customers by continuing the practice of contracting for the minimum amount of DTS, there should be a quid pro quo under the capital tracker regime in place in 2016, whereby Fortis customers would see an offsetting benefit through AESO contribution refunds, as DTS contract levels are increased to match increasing load.

77. However, this potential benefit to customers arising from Fortis' current approach to the determination of the DTS levels that it contracts for with the AESO would be diminished under Fortis' proposed treatment of AESO contributions after the transition to the next generation PBR, as set out in Fortis' response to FAI-AUC-2017JUL21-010(e) and (f).⁶⁸

If Fortis anticipates that it will receive a credit for this project when the DTS levels are re-examined, please answer the following questions:

⁶⁵ Exhibit 22741-X0077, FAI-AUC-2017JUL21-010(c).

⁶⁶ Exhibit 22741-X0077, FAI-AUC-2017JUL21-010(e).

⁶⁷ ISO tariff effective January 1, 2017, most recently updated per Decision 22248-D01-2016, available at: <https://www.aeso.ca/rules-standards-and-tariff/tariff/tariff-effective-april-1-2016/>, PDF page 3.

⁶⁸ Exhibit 22741-X0077, PDF page 26.

- (i) Prior to the K-bar model of capital funding, how would this credit have been applied to the AESO Contributions Program and to Fortis' rate base?
- (ii) How does Fortis propose to address this credit and adjustment to rate base in the context of rebasing and the K-bar model of capital funding?

78. Fortis provided the following two-part response, which reflected Fortis' understanding of the effect of the transition to the second PBR term mechanisms on AESO contributions:

- (i) Under the K Factor model, the credit would reduce the net additions and, consequently, the calculated required revenue requirement for the AESO Contributions Program in the Capital Tracker accounting test beginning in the year in which they are received. Regardless of whether the K Factor or K-Bar model is used for incremental capital funding, AESO Contributions costs and credits are considered final and incorporated into the actual rate base in the year in which they are paid or received.
- (ii) If the AESO Contributions credit is received in 2017, it would reduce FortisAlberta's 2017 actual rate base. As a qualifying Capital Tracker program in the first PBR term, the AESO Contributions included in the 2017 notional rate base will be trued up to actual and, therefore, the final 2017 notional revenue requirement to set going-in rates for the second PBR term would reflect a reduction related to the credit. The AESO Contributions credit would also be incorporated in the determination of base K-Bar through both the calculation of revenue from PBR and in the opening balances included in the calculation of the 2018 rate base for K-Bar purposes.

If the AESO Contributions credit is received in 2018, it would reduce FortisAlberta's 2018 actual rate base. However, the credit would not impact the 2017 notional rate base nor the final 2017 notional revenue requirement to set going-in rates. The AESO Contributions credit would also not be reflected in incremental capital funding derived from the K-Bar model.⁶⁹

79. It is clear from this response that the net effect of the transition to the second PBR term is that after the transition, Fortis shareholders would be the exclusive beneficiaries of any refund occurring after 2017. Fortis' position is that the K-bar based on the 2013-2016 period would be locked in at a comparatively high level while Fortis shareholders would retain the full amount of any AESO contribution refunds under subsection 2 of Section 9 of the ISO tariff received during the 2018-2022 PBR term. The Commission considers that the fundamental change in who benefits from AESO contribution refunds triggered by a DTS increase would represent a windfall to Fortis that could fundamentally alter the acceptability of Fortis' approach to maximizing AESO contributions in exchange for lower DTS billing.

80. Having regard for the above, and having regard for the Commission's finding in Section 7.1.2.1 that the projects in Attachment FAI-AUC-2017SEP07-002.01⁷⁰ are not final by virtue of Fortis' structural reliance on future refunds to be triggered by future DTS increases, the Commission directs Fortis to recalculate AESO contributions for all projects in Attachment FAI-AUC-2017SEP07-002.01 to reflect the AESO contribution refund pursuant to subsection 2 of

⁶⁹ Exhibit 22741-X0077, PDF page 26.

⁷⁰ Exhibit 22741-X0094.

Section 9 of the ISO tariff that Fortis would be eligible for if it immediately increased DTS to the amount of the maximum capacity of the project. For this purpose, Fortis is directed to use the maximum DTS level indicated for each project in Fortis' response to FAI-AUC-2017SEP07-003,⁷¹ and to calculate the effect of such DTS contract capacity changes to determine a revised prior-year true-up for the year 2016. Fortis is directed to file this information in a compliance filing pursuant to this decision.

7.1.2.3 Other barriers to finalization of 2016 AESO contribution amounts

81. In its response to FAI-AUC-2017JUL21-029,⁷² Fortis indicated that Commission findings at paragraph 953 of Decision 3524-D01-2016 to re-accrue allowance for funds used during construction (AFUDC) to AltaLink projects, including Fortis transmission connection projects, had not yet been reflected in the AESO contribution adjustments proposed in Fortis' 2016 capital tracker true-up application.

82. Similarly, in its response to FAI-AUC-2017JUL21-038, Fortis indicated that reductions to the costs of four Fortis connection projects arising from the Commission's disallowance at paragraph 397 of Decision 3585-D03-2016⁷³ of AltaLink's request to incorporate costs associated with the risk-reward mechanism was also not reflected in the AESO contribution amount in respect of the four identified project in Fortis' 2016 capital tracker true-up application.

Commission findings

83. The Commission considers that the effect of both the re-accrual of AFUDC and the risk reward disallowance were known effects that pertain to projects completed before December 31, 2016. The fact that these effects were not reflected in AltaLink's 2016 true-up supports the Commission's finding above that AESO contributions for the year 2016 cannot be finalized at this time.

84. Fortis is directed to ensure that the re-accrual of AFUDC and the disallowance of the risk reward mechanism costs is reflected in the examination of Fortis' AESO contribution amounts on projects completed by December 31, 2016, to be considered as part of Fortis' 2017 capital tracker true-up application.

7.1.2.4 Effect of Fortis decisions on AESO contribution amounts

85. In Decision 21538-D01-2017, the Commission found that Fortis' AESO Contributions Program was affected by the actions of the three parties involved in the planning and execution of transmission connection projects, namely, Fortis, the AESO and the TFO (AltaLink). The Commission summarized its understanding of these interactions as follows:

The Commission understands that projects giving rise to AESO contribution amounts are generally initiated by Fortis on the basis of its assessment of the needs of its end-use customers. Fortis also determines the amount of DTS contract capacity for each project. While the AESO determines the amount of the investment level that Fortis is eligible for in accordance with its tariff, the AESO's determination is essentially mechanical because

⁷¹ Exhibit 22741-X0095.

⁷² Exhibit 22741-X0077, PDF page 61.

⁷³ Decision 3585-D03-2016: AltaLink Management Ltd., 2012 and 2013 Deferral Accounts Reconciliation Application, Proceeding 3585, Application 1611090-1, June 6, 2016.

it reflects the DTS contract levels and contract terms that Fortis requests. The AESO's determination of the contribution for each project is the difference between the participant-related costs of the project and the applicable investment level calculated by the AESO. The TFO's execution of the connection project determines the cost of the project used for the contribution calculation. Because project execution takes time, the final amount of the cost of each project may not be known for some time after Fortis has initially forecast a contribution amount. In addition, if the Commission finds that some portion of the TFO's expenditures on a connection project were not prudent in a direct assigned capital deferral account (DACDA) reconciliation proceeding decision, this can also affect the amount of the contribution that Fortis is ultimately required to pay.⁷⁴

86. The Commission also stated in Decision 21538-D01-2017 that Fortis' contributions to the AESO likely reflected the effect of decisions within Fortis' control to a greater degree than had been recognized in prior proceedings, which had often relied on evidence that contribution amounts were driven by and involved decisions made by third parties, namely, the AESO and AltaLink.⁷⁵ In addition to Fortis' control over DTS contract levels, which is addressed in Section 7.1.2.2 above, Fortis' control over other aspects of the transmission projects for which Fortis is requesting recovery of AESO contributions is reflected within Direction 8 at paragraph 240 of Decision 21538-D01-2017, which states:

In its future capital tracker true-up applications, Fortis is directed to ... provide any other information it deems relevant to the Commission's prudence analysis of Fortis' actions with respect to the execution of the AESO Contributions projects.

87. Fortis addressed this aspect of Direction 8 in Appendix A-2 of its application.⁷⁶ In its response, Fortis explained that it uses a holistic approach to establish the need for system upgrades that considers:

- the identification of deficiencies (i.e., potential violations to distribution planning criteria) within its service area
- the identification of technically feasible alternatives to address the identified deficiencies
- economic analysis designed to determine which feasible alternative should be preferred.

88. In its response to FAI-AUC-2017JUL21-039, Fortis did not agree with a suggestion that the Commission should assess the reasonableness of transmission connection project design decisions based on decisions made by Fortis, rather than on decisions made by the AESO.⁷⁷

89. In its response to FAI-AUC-2017JUL21-040,⁷⁸ Fortis confirmed that it receives project reports prepared by AltaLink or the AESO during project execution, and agreed that it has a responsibility to provide information to the AESO and AltaLink during project execution that would assist in minimizing the cost of executing transmission connection projects.

⁷⁴ Decision 21538-D01-2017, paragraph 218.

⁷⁵ Decision 21538-D01-2017, paragraph 236.

⁷⁶ Exhibit 22741-X0036, PDF pages 13-14.

⁷⁷ Exhibit 22741-X0077, PDF pages 80-81.

⁷⁸ Exhibit 22741-X0077, PDF page 83.

Commission findings

90. Fortis' response to Direction 8, requiring it to discuss from a prudence standpoint how it makes decisions that result in payment of AESO contributions, primarily addresses how Fortis makes decisions to initiate, or to postpone or defer, a transmission connection or upgrade project.

91. The Commission is also interested in how Fortis' general approach to need and deferral decisions is manifested in actual projects. Further, Fortis' response did not address its role and interactions with the TFO, AltaLink, and the AESO during project execution to ensure that these projects and resulting AESO contributions are prudent.

92. In Decision 3585-D03-2016, in respect of AltaLink's 2012 and 2013 deferral accounts reconciliation application, which included consideration of transmission connection projects initiated by Fortis, the Commission indicated that its examination of projects in that proceeding had raised issues for consideration in other tariff proceedings. Of particular note to the Commission were projects for which Fortis was the market participant.⁷⁹

93. The Commission notes that while it is possible for the prudence of AESO contributions to be examined in a capital tracker proceeding, in practice, the Commission considers that because Fortis has effectively based the "actual" amount of the AESO contribution on the aggregate amount of the customer contribution decision (CCD) for each project determined by the AESO at the time of each year's application, no such prudence review has taken place.

94. The Commission considers that an examination of the prudence of Fortis' AESO contributions would involve an adjudication of whether Fortis' actions or inactions in respect of the transmission contribution projects that give rise to AESO contribution amounts claimed by Fortis, reflected prudent decisions by Fortis in light of the information available to it at the time key decisions had to be made. Specifically, a prudence adjudication of this nature would involve the following test, identified in Decision 2001-110 at page 10:

... a utility will be found prudent if it exercises good judgment and makes decisions which are reasonable at the time they are made, based on information the owner of the utility knew or ought to have known at the time the decision was made. In making decisions, a utility must take into account the best interests of its customers, while still being entitled to a fair return.

95. As addressed in FAI-AUC-2017JUL21-039 and FAI-AUC-2017JUL21-040, the Commission finds that Fortis plays a key role in the determination of the final cost of transmission connection projects that form part of the AESO contribution amounts that Fortis seeks to recover. As such, Fortis has an obligation to demonstrate the prudence of its proposed AESO contributions amounts, yet no prudence review has taken place in the present proceeding or prior capital tracker true-up proceedings in which AESO contributions have been considered. However, in light of the impending transition to next generation PBR mechanisms, the Commission finds that such a review should be conducted before projects completed by the end of 2016 can be finalized.

⁷⁹ Decision 3585-D03-2016, paragraph 1255.

96. The Commission directs that the prudence review take place as part of Fortis' 2017 capital tracker true-up proceeding, and include consideration of all projects identified in Fortis' response to FAI-AUC-2017SEP07-002.⁸⁰

7.1.2.5 Process for finalization of 2015 and 2016 AESO contributions

97. At paragraph 216 of Decision 21538-D01-2017, the Commission approved Fortis' capital additions in respect of AESO contributions for the year 2015 on an interim basis only.

98. In its findings in Section 7.1.2.1, the Commission rejected Fortis' proposal that contributions be deemed final each year, and Fortis' related proposal that 2016 AESO contribution capital tracker be considered final upon the issuance of the Commission's decision in respect of this application. In addition, in its findings in Section 7.1.2.2, the Commission directed Fortis to provide an update to its 2016 AESO contribution amounts to reflect the effect of increasing DTS contract levels on all projects described in Fortis' response to FAI-AUC-2017SEP07-002⁸¹ for the purposes of determining the interim amount of the 2016 AESO contribution addition amount in Fortis' compliance application.

Commission findings

99. Most or all of the projects identified in Fortis' response to FAI-AUC-2017SEP07-002, including those listed in the 2015 reconciliation totalling \$54.8 million approved on an interim basis in Decision 21538-D01-2017,⁸² are part of the capital tracker true-up reconciliation examined in that decision. Consequently, these projects are inherently subject to the potential for further adjustment through the refund mechanism set out in Section 9 of the ISO tariff described in Fortis' response to FAI-AUI-2017JUL21-010(c),⁸³ as addressed in Section 7.1.2.2 above, and therefore remain interim. Notwithstanding, and having regard for the need to commence the transition of AESO contributions to the next generation PBR regime, the Commission considers that it may nonetheless be reasonable as a practical matter to consider Fortis' 2015 net capital additions on AESO contributions in the amount of \$54.8 million to be "final," in the sense that no further adjustment to this figure is contemplated.⁸⁴

100. To the extent that the updated DTS described in Attachment FAI-AUC-2017SEP07-003.01, which must be approved in a compliance proceeding, has not been subject to detailed review in this proceeding, the Commission considers that a detailed examination of prudent DTS levels in the context of the next generation PBR transition described in FAI-AUC-2017JUL21-010 and in Section 7.1.2.2 be part of the final review of AESO contribution amounts for projects included in Fortis' response to FAI-AUC-2017SEP07-002 expected to take place within Fortis' 2017 capital tracker true-up proceeding.

7.1.2.6 Cancelled project costs

101. In the current proceeding, parties addressed the question of whether expenditures on projects that are initially conceived in one form, but which are subsequently cancelled prior to

⁸⁰ Exhibit 22741-X0094, Attachment FAI-AUC-2017SEP07-002.01.

⁸¹ Exhibit 22741-X0094, Attachment FAI-AUC-2017SEP07-002.01.

⁸² Decision 21538-D01-2017, paragraph 216.

⁸³ Exhibit 22741-X0077, PDF page 25.

⁸⁴ This finding reflects the Commission's direction to Fortis to revise its prior-year true-up for the year 2016 in Section 7.1.2.2, which includes 2015 projects reflected in the \$54.8 million figure.

completion and replaced with a different completed project located in the same general area, should be eligible for recovery through the Fortis AESO contribution capital tracker mechanism. A similar issue was considered in Decision 21538-D01-2017.

102. The Commission set out Direction 11 of Decision 21538-D01-2017 at paragraph 270 of that decision, as follows:

270. The Commission wishes to understand more completely the justification and rationale for the transfer of legacy costs from cancelled projects to successor projects rather than treating those costs in accordance with the contract provisions as highlighted above. Accordingly, Fortis is directed to identify all AESO contributions projects that contain legacy costs transferred from a cancelled project and explain the rationale for including those costs in the successor project, in the next capital tracker filing.⁸⁵

103. In response to this direction, Fortis indicated that, in practice, the solution initially proposed to meet an identified need for new facilities may ultimately be of use within the final project built to meet the AESO's overall requirements. Accordingly, Fortis stated that the reallocation of the "legacy costs" incurred on the original project into the successor project is an efficient manner in which to preserve the value that those expenditures have to subsequent projects.⁸⁶

104. Fortis went on to explain in its evidence that multiple projects may be created as a consequence of the AESO's connection process, with the result that "legacy costs" may be incurred during the scoping phase of project development.⁸⁷ Fortis used the CCD for the Okotoks/High River project as an example, where \$4.1 million of costs accumulated from the Big Rock and Black Diamond project were assigned to the Okotoks/High River Project.⁸⁸ Other examples included project costs of \$1.8 million from the Waiparous area project, which were allocated to the Cochrane project. Fortis indicated that it considered that the Cochrane Project represented the final version of the Waiparous Project.⁸⁹

105. In its argument, the CCA responded to Fortis' assertions that expenditures on projects that are cancelled should be recoverable as part of the AESO contribution on the final project, by providing four distinct reasons to counter Fortis' suggestion that it should be able to transfer the cost of a cancelled project into its successor project.

106. First, the CCA expressed concern with the transfer of costs originally incurred in relation to the Big Rock/Black Diamond projects to the Okotoks/High River project. Noting that this transfer of costs to the Okotoks/High River Project was rejected by the AESO less than a week after the AESO received it, and given that a decision was made not to submit a facility application for the Big Rock/Black Diamond projects to the Commission, the CCA submitted that the transfer of costs did not appear to be reasonable.⁹⁰ In particular, the CCA submitted that costs related to the preparation of its original proposal to provide services (PPS), costs to prepare

⁸⁵ Decision 21538-D01-2017, paragraph 270.

⁸⁶ Exhibit 22741-X0038, paragraph 27.

⁸⁷ Exhibit 22741-X0038, paragraph 28.

⁸⁸ Exhibit 22741-X0038, paragraph 29.

⁸⁹ Exhibit 22741-X0038, paragraph 30.

⁹⁰ Exhibit 22741-X0074, FAI-AUC-2017JUL21-011(a), cited at Exhibit 22741-X0105, CCA argument, paragraph 11.

the original project's facility application, and costs identified as being related to land rights acquisition and land damage costs for the original projects did not appear to be related to the subsequent project.⁹¹

107. Next, the CCA submitted that, contrary to International Financial Reporting Standards (IFRS), which only permits the recognition of an asset where the asset can be associated with probable future economic benefits, expenditures denied by the AESO on a project not submitted to the Commission for approval are sunk costs.

108. Thirdly, the CCA submitted that costs must be directly attributable to bringing an asset into the condition necessary to meet the asset's intended service before it can be capitalized. However, as the cancelled project costs relate to a past application for a different project, there is no reasonable basis upon which to consider the costs in question to be directly attributable to a future asset.⁹²

109. Finally, the CCA submitted that to the extent the transferred costs are not related to a project for which costs can be recovered after testing in a DACDA proceeding, such costs are operating costs, not capital costs. However, as the recovery of operating costs must be supported by a deferral account, and no such deferral account has been approved, the CCA submitted that these costs should not be afforded capital tracker treatment by the Commission.⁹³

110. Responding to the CCA's principal arguments in reply, Fortis submitted that it is reasonable to transfer costs of projects initiated to mitigate deficiencies in areas served by Fortis because, contrary to the CCA's submission that transfers of costs to successor projects do not constitute an attempt to repackage costs solely to facilitate cost recovery. Fortis submitted that, because it has little control over the timing or nature of direct assigned project work, transferring costs to a successor project leverages the benefits of initial work and provides a practical means of capturing the value of this work in a manner that is fair to both the utility and its customers.⁹⁴

111. Fortis submitted that the CCA's suggestion that costs transferred to the Okotoks/High River Project were rejected by the AESO shortly after submission is not supportable, since the AESO never rejected these costs. Instead, Fortis noted that while initially two separate system access service requests (SASRs) for the Big Rock and Black Diamond projects were made, an alternative solution was identified following collaboration with both AltaLink and the AESO, which addressed the deficiencies in the area on a more cost effective basis than the original proposals.⁹⁵ In particular, to the extent that Fortis notified the AESO on May 14, 2015, that it intended to pursue a more cost-effective alternative, to be followed by new SASRs in support of DTS contracts at Okotoks and High River, the CCA's characterization of expenditures as being related to "cancelled" and "rejected" projects should be considered a transparent attempt by the CCA to portray Fortis' decisions as an unprincipled attempt to recover otherwise imprudently incurred costs.⁹⁶

⁹¹ Exhibit 22741-X0105, CCA argument, paragraph 12.

⁹² Exhibit 22741-X0105, CCA argument, paragraph 13.

⁹³ Exhibit 22741-X0105, CCA argument, paragraph 14.

⁹⁴ Exhibit 22741-X0112, Fortis reply argument, paragraph 9.

⁹⁵ Exhibit 22741-X0112, Fortis reply argument, paragraph 13.

⁹⁶ Exhibit 22741-X0112, Fortis reply argument, paragraph 14.

112. Fortis also recommended that the Commission reject the CCA's suggestion that the costs associated with the original projects are sunk costs for which recovery would be contrary to IFRS. According to Fortis, because the costs questioned by the CCA will bring a future economic benefit and were directly attributable to bringing the project into service, these costs were correctly capitalized and put forward for capital tracker treatment.⁹⁷

113. Finally, Fortis submitted that the Commission must consider these costs in relation to Fortis' actual PBR plan, rather than in relation to how the CCA considers that Fortis' plan should function. Fortis submitted that because its 2013-2017 PBR plan provides for incremental capital funding through the capital tracker mechanism and not through a DACDA or any other deferral mechanism, the CCA's suggestion that its costs should not be afforded capital tracker treatment in the absence of a deferral account is meaningless, and should be rejected.⁹⁸

Commission findings

114. In its findings in Section 7.2.3.4.3 of Decision 21538-D01-2017, the Commission dealt with the question of whether expenditures on cancelled transmission connection projects should be included in successor transmission connection projects, and form part of Fortis' prudent expenditures on AESO contributions. Based on its consideration of subsections 25(2) and (5) of the *Transmission Regulation*, that deal with the AESO's discretion to satisfy itself that cost estimates are reasonable, and the AESO's prerogative to certify costs or notify the Commission of concerns, respectively, the Commission found that the AESO's consent to transfer expenditures from an initial project to a successor project is a necessary, but not sufficient condition for transferred costs to be considered prudent in connection with Fortis' AESO contributions.⁹⁹

115. The Commission also acknowledged in paragraph 266 of Decision 21538-D01-2017 that Fortis and AltaLink entered into construction commitment agreements that required Fortis to reimburse AltaLink for the aggregate amount of cancelled costs in the event that the project was cancelled. The finding that AltaLink and Fortis had entered into a construction commitment agreement was significant because such agreements contain provisions outlining the rights of each party when a proposed project is cancelled.

116. Given the construction commitment agreements discussed in Decision 21538-D01-2017, the Commission considers that the onus is on AltaLink to demonstrate why costs eligible for recovery from Fortis as cancellation costs should be included as part of the capital addition amount for which AltaLink is requesting approval in the context of an AltaLink DACDA proceeding.

117. Fortis' response to Direction 11 from Decision 21538-D01-2017 and supporting argument in this proceeding have not persuaded the Commission that the mere fact that costs were incurred on initial projects developed to meet an area problem and ultimately solved by a different final project, is sufficient to justify the prudence of these costs in the final project or, by extension, that these costs are a part of Fortis' AESO contribution on the final project.

⁹⁷ Exhibit 22741-X0112, Fortis reply argument, paragraph 16.

⁹⁸ Exhibit 22741-X0112, Fortis reply argument, paragraph 17.

⁹⁹ Decision 21538-D01-2017, paragraph 268.

The Commission remains similarly unpersuaded that prudence is met because the AESO was aware that these costs were assigned to the final project.

118. The Commission acknowledges that it may certainly be the case that Fortis made prudent decisions to terminate work on the initial projects in favour of the different projects built. However, to the extent that some of the expenditures flagged for consideration by the CCA represent expenditures that contemplated transmission facilities that were not built, there remain open questions involving prudence. For example, a question of prudence could be asked in regard to whether the extent of the work undertaken in anticipation of the initial projects should ever have been undertaken or in regard to whether such work should have been stopped earlier as the ultimate project concept came into focus.

119. The Commission has determined that because Fortis is contractually required to pay cancellation costs to AltaLink related to the Big Rock, Black Diamond and Waiparous area projects, Fortis must remove all of the costs that have been transferred from those projects from the AESO contribution amounts claimed in respect of the Okotoks/High River and Cochrane projects in its compliance filing.

120. However, as set out at paragraph 271 of Decision 21538-D01-2017, this direction does not prejudice the right of Fortis to seek recovery of these cancellation costs in Fortis' 2017 capital tracker true-up application as part of the prudence review process described in Section 7.1.2.4 above that the Commission expects to take place. Fortis must be prepared to establish the prudence of such costs as part of the Okotoks/High River and Cochrane projects.

121. Having regard to the first of the arguments identified by the CCA, the Commission finds that the fact that the AESO had rejected the transfer of costs on Big Rock/Black Diamond projects to the Okotoks/High River Project is not, of itself, significant. This is because the Commission's expectation is that provisions in the construction commitment agreement dealing with the costs associated with projects that have been cancelled by Fortis and AltaLink is the primary mechanism by which the costs of projects that have been cancelled should be addressed.

122. In light of to the Commission's finding above that Fortis has a right to seek the recovery of these cancellation costs as part of the prudence review to be conducted in Fortis' 2017 capital tracker proceeding, the Commission finds that it would be premature to rule on either the second or the third of the CCA's objections to Fortis' proposed treatment of cancelled project costs. Specifically, the Commission finds that the CCA's proposition that allowing capital tracker treatment of AESO contribution amounts from cancelled project costs would not be consistent with IFRS standards could be considered if, in a future application, Fortis sought to seek recovery of cancellation costs paid to AltaLink, pursuant to the construction commitment agreement. The CCA's proposition that the capitalization of cancelled project costs would be contrary to the view that such costs must be directly attributable to bringing an asset into the condition necessary to meet the asset's intended service could also be examined at that time.

123. Finally, the Commission does not agree with the CCA's suggestion that no approved deferral account for cancelled project costs has been established. Specifically, if Fortis were to succeed in persuading the Commission in the course of the 2017 prudence review, that expenditures on cancelled projects were reasonable and prudent, given the circumstances that Fortis faced at the time such decisions were made; that is, if the expenditures on cancelled projects were to satisfy the Commission's test for prudence, then such costs could be capitalized.

7.1.2.7 Other matters

7.1.2.7.1 Coordination with AltaLink

124. In its preamble to FAI-AUC-2017JUL21-027,¹⁰⁰ the Commission noted the importance of consistency between the AESO contribution recorded by AltaLink in DACDA proceedings and the AESO contribution amounts recorded by Fortis in capital tracker forecast or capital tracker true-up applications.

125. Further to this concern, the Commission requested that Fortis provide certain schedules showing the contribution amounts recorded by AltaLink on the record of the current proceeding.¹⁰¹

126. In response to FAI-AUC-2017JUL21-028,¹⁰² Fortis indicated that a schedule filed on the record of AltaLink's 2012-2013 DACDA proceeding¹⁰³ accurately reflected contributions made in respect of Fortis transmission connection projects constructed by AltaLink as at December 31, 2013. However, because Fortis did not have access to AltaLink's detailed accounting records, Fortis stated that it could not confirm the amount of AltaLink's actual capital additions of construction contributions on Fortis projects as of that date.

Commission findings

127. The Commission accepts Fortis' observation in its IR response that because it does not have access to AltaLink's accounting records, it could not verify AltaLink's accounting treatment of contributions received from Fortis.

128. However, because any changes to Fortis contributions in respect of AltaLink transmission connection projects have a direct effect on the net rate base of AltaLink, the Commission considers it to be important that this information can be reconciled accurately between the two Commission-regulated utilities.

129. In fulfilling the direction to restate deemed AESO contribution amounts for the projects in Attachment FAI-AUC-2017SEP07-002.01,¹⁰⁴ Fortis may have to request that the AESO review contribution amounts determined by the AESO in accordance with subsection 2(2) of Section 9 of the AESO's tariff.¹⁰⁵ The Commission directs Fortis to provide a report at the time of its compliance filing showing, for each project shown on Attachment FAI-AUC-2017-SEP07-002.01, whether Fortis intends to seek a refund, the date by which the refund is expected to be provided, and the amount of the contribution refund in each case.

7.1.2.7.2 Flow through of contributions to end-use customers

130. At paragraph 249 of Decision 21538-D01-2017, the Commission set out Direction 10, which directed Fortis, in its next Phase II application, to discuss whether some form of pro rata sharing of AESO contributions by end-use customers that drive the need for an AESO

¹⁰⁰ Exhibit 22741-X0077, PDF page 59.

¹⁰¹ The AltaLink schedules requested in FAI-AUC-2017JUL21-027 were filed by Fortis as exhibits 22741-X0057, 22741-X0058 and 22741-X0059.

¹⁰² Exhibit 22741-X0077, PDF page 60.

¹⁰³ Exhibit 3585-X0772.

¹⁰⁴ Exhibit 22741-X0094.

¹⁰⁵ Exhibit 22741-X0077, FAI-AUC-2017JUL21-010(c).

Contributions Project is warranted, including a proposal for an alternative pro rata sharing scheme; or Fortis' views, including a detailed rationale as to why pro rata sharing of AESO contributions by customers other than Rate 65, would not be warranted.¹⁰⁶

131. Fortis acknowledged Direction 10 from Decision 21538-D01-2017 in Appendix C to the application, but indicated that this matter would be addressed by Fortis in its next Phase II application.¹⁰⁷

Commission findings

132. The Commission accepts Fortis' explanation in Appendix C to the application that Direction 10 from Decision 21538-D01-2017 is a matter to be addressed in its next Phase II application.¹⁰⁸

133. In FAI-AUC-2017JUL21-030, the Commission requested that Fortis examine the treatment of AESO contributions in respect of the Underwood 183S new substation project and the Round Hill area substation project. As discussed in that IR, Fortis was the market participant in respect of both of these projects, and confirmed that it had not requested capital tracker treatment on the \$25.7 million AESO contribution on the Underwood project because the cost of the contribution was flowed through to the end-use customer that required the project. Conversely, Fortis explained that it had not considered to flow through the full AESO contribution on the Round Hill Project in the amount of approximately \$40.7 million on the basis that, unlike the Underhill project, which served a single end-use customer, the Round Hill project:

- was required to serve multiple customers,
- could provide Fortis with the capability to resolve future reliability or capacity constraints on its distribution system,
- has potential to serve additional load growth in the area, and
- was designed and constructed to provide service to end-use customers at a low side voltage matching Fortis' standard 24 kV distribution voltage.¹⁰⁹

134. The Commission accepts Fortis' explanation that the decisions to flow through the full amount of the Underhill Project to the end-use customer while not flowing through any amount of the larger AESO contribution to the initial end-use customer for the Round Hill project, reflects differences in treatment described in Fortis' tariff. However, the Commission considers that the prudence of Fortis' AESO contribution amount in the Round Hill Project given that the end-use customer was responsible for the need and timing of the project, is a matter for consideration in the prudence review of AESO contributions included in Fortis' 2017 true-up application as discussed in Section 7.1.2.4 above.

¹⁰⁶ Decision 21538-D01-2017, paragraph 249.

¹⁰⁷ Exhibit 22741-X0001, PDF page 5.

¹⁰⁸ Exhibit 22741-X0038, paragraph 26.

¹⁰⁹ Exhibit 22741-X0077, PDF page 64, FAI-AUC-2017JUL21-030(d).

7.1.2.7.3 Finalization of 2017 amounts

135. In Decision 20497-D01-2016, the Commission approved Fortis' forecast of capital additions¹¹⁰ for AESO contributions totalling \$73.7 million¹¹¹ for the year 2017. As set out in Section 7.1.2.4, the Commission anticipates that review of Fortis' prudence in respect of the transmission connection projects identified in Attachment FAI-AUC-2017-SEP07-002.01¹¹² will take place as part of Fortis' 2017 capital tracker true-up proceeding.

136. However, as noted in Decision 21538-D01-2017, the anticipated prudence review of Fortis' AESO contribution addition amounts on all of the projects identified in Attachment FAI-AUC-2017SEP07-002.01, is complicated by the fact that the Commission's review of AltaLink's prudence will have been conducted for some, but not all, the projects identified therein. The Commission notes that there may be additional Fortis transmission connection projects not identified in Attachment FAI-AUC-2017SEP07-002.01 that have required Fortis to make an AESO contribution.

137. In light of the above, and the fact that there may be a substantial time delay before all Fortis transmission connection projects giving rise to AESO contributions completed before December 31, 2017, have been reviewed in an AltaLink DACDA application, there may be an additional time delay before the prudence of Fortis' AESO contributions on these projects can be examined. However, in recognition of the potential desirability to have a relatively short and "clean" transition of AESO contributions to the next generation PBR plan, the Commission wishes to consider other proposals that would balance the interests of Fortis shareholders and customers.

138. Fortis is directed to provide its view and potential recommendations on this matter as part of its compliance filing pursuant to this decision.

7.1.3 Substation Associated Upgrades Program

139. The Substation Associated Upgrades Program involves the construction of distribution facilities to connect existing facilities to new substations or new substation equipment. When Fortis' system planning studies show that an existing AltaLink substation is reaching capacity and can no longer support Fortis' future load growth, solutions are investigated with the AESO and with AltaLink. Potential solutions include installing a new substation, increasing the capacity of an existing substation, or installing a new substation breaker. Fortis provided details of the program in Appendix A-3 of the application.¹¹³ The need for this program as part of project assessment under capital tracker Criterion 1, was approved in decisions 2013-435,¹¹⁴ 3220-D01-2015,¹¹⁵ and 20497-D01-2016.¹¹⁶

140. The 2016 approved forecast capital additions for this program were \$17.3 million, while the actual 2016 capital additions were \$22.4 million, resulting in a \$5.1 million positive variance.

¹¹⁰ Decision 20497-D01-2016, paragraph 185.

¹¹¹ Decision 20497-D01-2016, paragraph 161.

¹¹² Exhibit 22741-X0094.

¹¹³ Exhibit 22741-X0019, Appendix A-3, Substation Associated Upgrades Program.

¹¹⁴ Decision 2013-435, paragraph 1039.

¹¹⁵ Decision 3220-D01-2015, paragraph 224.

¹¹⁶ Decision 20497-D01-2016, paragraph 213.

The 2016 approved forecast capital expenditures for this program were \$16.6 million, while the actual 2016 capital expenditures were \$17.5 million, resulting in a \$0.9 million variance.¹¹⁷

141. Fortis provided capital expenditure variance explanations for each individual project in the Substation Associated Upgrades Program undertaken in 2016.¹¹⁸ The increase in 2016 expenditures was driven primarily by the carryover of the Edson, Cochrane and Red Deer projects from 2015, as well as more project work relating to the High River Project being able to be completed in 2016 than was forecast as a result of the early issuance of the permit and licence. These increases were partially offset by decreased costs in the Leduc Project due to the delay in obtaining a third party easement coordinated with a planned road widening and a delay in the Blackfalds Project due to a delay in municipal approvals.

142. No issues were raised by the UCA or the CCA in respect of the Substation Associated Upgrades Program.

Commission findings

143. In Decision 20497-D01-2016, the Commission approved the need for the Substation Associated Upgrades Program for the purposes of capital tracker treatment for 2016, and determined that the proposed scope, level, timing and forecast costs for this program were reasonable.

144. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a program was not required in 2016, then there is no need to demonstrate that a program was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Substation Associated Upgrades Program was not required in 2016.

145. With respect to the scope, level and timing of the program carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$22.4 million for 2016 associated with this program and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the actual costs were \$5.1 million higher than the approved forecast primarily because of the carryover of the Edson, Cochrane and Red Deer projects from 2015, as well as the timing of the High River project. The Commission has also reviewed the costs of the actual capital additions for this capital tracker program in light of the evidence supporting these costs and finds the actual costs to be prudent, and the variance explanations to be reasonable. The Substation Associated Upgrades Program satisfies the project assessment requirement of Criterion 1 in 2016.

7.1.4 Distribution Line Moves Program

146. The Distribution Line Moves Program consists of Fortis fulfilling third-party requests for the relocation of existing distribution lines, pursuant to the agreements in place between Fortis and government agencies, regulatory bodies, or individual customers. These agreements

¹¹⁷ Exhibit 22741-X0038, application, paragraph 53, Table 7.

¹¹⁸ Exhibit 22741-X0018, Substation Associated Upgrades Program, Appendix A-3, Attachment 1.

articulate the responsibilities of Fortis in relation to five categories of distribution line moves requests that include transmission-initiated line installations, upgrades or rerouting (AltaLink), Alberta Transportation, urban municipal governments (cities or towns), rural municipal governments (counties or municipal districts), and customers or independent parties. Fortis provided details of the Distribution Line Moves Program in Appendix A-4 of the application.¹¹⁹ The need for this program, as part of the project assessment under capital tracker Criterion 1, was approved in Decision 20497-D01-2016.¹²⁰

147. The 2016 approved forecast capital additions for this program were \$12.6 million, while the actual 2016 capital additions were \$17.3 million, resulting in a \$4.7 million positive variance.¹²¹ The 2016 approved forecast capital expenditures for this program were \$15.3 million, while the actual 2016 capital expenditures were \$17.9 million, resulting in a \$2.6 million positive variance.¹²²

148. Fortis explained that there was an increase in demand for rural municipality-driven and transmission-driven line moves, caused by a high number of rural road widening projects and large transmission projects in the Edmonton, Whitecourt and Hardisty areas. These were partially offset by fewer line move requests from customers as well as Alberta Transportation and Urban municipality projects resulting from decreased road work projects on major highways that overlap with Fortis Alberta's service area and less road work being completed by urban municipalities.¹²³

Commission findings

149. In Decision 20497-D01-2016, the Commission approved the need for the Distribution Line Moves Program for the purposes of capital tracker treatment for 2016, and determined that the proposed scope, level, timing and forecast costs for this program were reasonable.

150. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a program was not required in 2016, there is no need to demonstrate that a program was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Distribution Line Moves Program was not required in 2016.

151. With respect to the scope, level and timing of the program carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$17.3 million for 2016 associated with this program and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the actual costs were \$4.7 million higher than the approved forecast primarily because of an increase in demand for line moves caused by a high number of road widening projects and large transmission projects. The Commission has also reviewed the costs of the actual capital additions for this capital tracker program in light of the evidence supporting these costs and finds the actual costs

¹¹⁹ Exhibit 22741-X0017, Appendix A-4, Distribution Line Moves Program.

¹²⁰ Decision 20497-D01-2016, paragraph 186.

¹²¹ Exhibit 22741-X0038, application, Table 9, PDF page 23.

¹²² Exhibit 22741-X0038, application, Table 9, PDF page 23.

¹²³ Exhibit 22741-X0017, Appendix A-4, Distribution Line Moves Program, PDF page 17.

to be prudent, and the variance explanations to be reasonable. Accordingly, the program satisfies the project assessment requirement of Criterion 1 in 2016.

7.1.5 Urgent Repairs Program, Worst Performing Feeders Program, and Compliance, Safety, Aging Facilities, and Reliability Program

152. As discussed in Section 6, in Decision 20497-D01-2016, the Commission directed Fortis to group the Urgent Repairs, Worst Performing Feeders (WPF), and Compliance, Safety, Aging Facilities, and Reliability (CSAR) programs together for the purposes of the compliance filing and its future capital tracker applications.¹²⁴ Fortis combined these three programs as directed.¹²⁵

153. As set out in the table below, the 2016 approved total forecast capital additions for these combined programs were \$31.1 million, while the actual 2016 capital additions were \$31.8 million, resulting in a \$0.7 million positive variance.

Table 4. Urgent Repairs, WPF and CSAR programs net capital additions

	2016 forecast	2016 actual	Variance over/(under)
	(\$ million)		
Urgent Repairs Program ¹²⁶	15.3	13.7	(1.6)
WPF Program ¹²⁷	5.2	7.0	1.8
CSAR Program ¹²⁸	10.6	11.1	0.5
Total	31.1	31.8	0.7

Source: This table is a compilation of data provided by Fortis for the three programs as shown in Exhibit 22741-X0038, tables 11, 12 and 13. Minor variances due to rounding.

Urgent Repairs Program

154. The Urgent Repairs Program involves restoring service to customers after distribution facilities have failed and replacing defective or deteriorated distribution facilities that are in imminent danger of failing.¹²⁹ Fortis provided details of the Urgent Repairs Program in Appendix A-5 of the application.¹³⁰ The need for this program as part of the project assessment under capital tracker Criterion 1 was approved in Decision 3220-D01-2015,¹³¹ and again in Decision 20497-D01-2016.¹³²

155. The 2016 approved forecast capital additions for this program were \$15.3 million, while the actual 2016 capital additions were \$13.7 million, resulting in a \$1.6 million negative variance. The 2016 approved forecast capital expenditures for this program were \$17.1 million, while the actual 2016 capital expenditures were \$16.2 million, resulting in a \$0.9 million negative variance.¹³³ Fortis explained that the primary cause of the \$0.9 million negative variance

¹²⁴ Decision 20497-D01-2016, paragraph 62.

¹²⁵ Exhibit 22741-X0038, application, paragraph 61.

¹²⁶ Exhibit 22741-X0038, application, paragraph 65, Table 11.

¹²⁷ Exhibit 22741-X0038, application, paragraph 68, Table 12.

¹²⁸ Exhibit 22741-X0038, application, paragraph 71, Table 13.

¹²⁹ Exhibit 22741-X0015, Appendix A-5, PDF page 3.

¹³⁰ Exhibit 22741-X0015, Appendix A-5, Urgent Repairs Program.

¹³¹ Decision 3220-D01-2015, paragraph 262.

¹³² Decision 20497-D01-2016, paragraph 186.

¹³³ Exhibit 22741-X0038, application, paragraph 65, Table 11.

in capital expenditures was due to the fact that Fortis experienced less storm activity than in previous years, no major event days, and a decrease in property retirement units (PRUs) replacements, resulting from reduced weather-related repairs. This was partially offset by an increase in specific replacements as a result of additional line patrol repairs.¹³⁴

156. In response to a Commission IR, Fortis explained that specific replacements represent plant and equipment that are smaller than PRUs, such as crossarms, arrestors, pedestals, individual switches, lightning arrestors, ground rods and breaker boxes that have failed, or are in imminent danger of failure.

CSAR Program

157. The CSAR Program consists of several activities to replace and upgrade deteriorated, defective, and non-standard distribution equipment identified through detailed line patrols, technical reviews, or routine operations.¹³⁵ Fortis provided details of the CSAR Program in Appendix A-10 of the application.¹³⁶ The need for this program as part of the project assessment under capital tracker Criterion 1 was approved in Decision 3220-D01-2015,¹³⁷ and again in Decision 20497-D01-2016.¹³⁸

158. The 2016 approved forecast capital additions for this program were \$10.6 million, while the actual 2016 capital additions were \$11.1 million, resulting in a \$0.5 million positive variance. The 2016 approved forecast capital expenditures for this program were \$11.5 million, while the actual 2016 capital expenditures were \$11.7 million, resulting in a \$0.2 million positive variance.¹³⁹

159. In the table below, Fortis provided the 2016 forecast and actual capital expenditures for the CSAR Program, by program component.

Table 5. 2016 CSAR Program capital expenditures

	2016 forecast	2016 actual	Variance over/(under)
	(\$ million)		
Detailed line patrols	1.7	1.7	0.0
Compliance and safety			
Reduced clearances	1.7	1.5	(0.2)
Ground replacement	0.7	0.3	(0.4)
Steel pole replacements	0.5	0.8	0.3
Secondary poles	0.1	0.1	0.0
System neutrals	0.4	0.7	0.3
Secondary breaker boxes	0.6	0.6	0.0
Aging Facilities	1.2	1.1	(0.1)
Reliability			
Bird proofing	0.4	0.4	0.0

¹³⁴ Exhibit 22741-X0015, Appendix A-5, PDF page 11.

¹³⁵ Exhibit 22741-X0038, application, paragraph 69.

¹³⁶ Exhibit 22741-X0004, Appendix A-10, Compliance, Safety, Aging Facilities and Reliability Program.

¹³⁷ Decision 3220-D01-2015, paragraph 484.

¹³⁸ Decision 20497-D01-2016, paragraph 186.

¹³⁹ Exhibit 22741-X0038, application, paragraph 71, Table 13.

	2016 forecast	2016 actual	Variance over/(under)
	(\$ million)		
Conductor management	1.1	0.9	(0.2)
Insulator replacement	0.1	0.1	0.0
General reliability	2.8	3.4	0.6
Protective coatings	0.2	0.2	0.0
TELUS mitigation	0.1	0.0	(0.1)
Total	11.5	11.7	0.2

Source: Exhibit 22741-X0004, Appendix A-10, Table 13.

160. Fortis explained that the primary cause of the positive capital expenditure variance was that the general reliability capital expenditures increased by \$0.6 million from forecast due to the high volume of porcelain switch failures in recent years.¹⁴⁰

161. In response to a Commission IR, Fortis explained that field breakage of porcelain switches is an industry-wide issue, and factors that contribute to these failures include material defects, stress from transportation, installation, operations and environmental conditions. Fortis explained that it will continue to identify defective switches during detailed line patrols and will look proactively for opportunities to change the switches to the more reliable polymer varieties in connection with other scheduled work, as these defective switches may pose significant safety hazards to employees and the public, and may have other system reliability and environmental effects.¹⁴¹

162. In response to an IR from the CCA, Fortis explained that each specific event involving a porcelain switch failure is not tracked; therefore, it is not possible to provide failure rates. Fortis stated that upon investigation, it was determined that 22,000 switches installed between 2000 and 2010 were made to a harder specification of porcelain, which is particularly susceptible to freezing and cooling cycles. The manufacturer of these switches stopped using this type of porcelain in 2009.¹⁴²

Worst Performing Feeders Program

163. The WPF Program consists of the repair and upgrade of line sections of feeders on Fortis' distribution system for which customers have experienced the poorest reliability. Fortis explained that this program assesses feeders based on the number of outages, the duration of those outages, and the corresponding number of customers affected. The process can be summarized as follows:¹⁴³

- (a) identifying the worst performing areas of the distribution system and determining the causes of poor performance;
- (b) developing and implementing an action plan to address the causes;
- (c) measuring and assessing the effectiveness of the improvements.

¹⁴⁰ Exhibit 22741-X0004, Appendix A-10, PDF page 37.

¹⁴¹ Exhibit 22741-X0077, FAI-AUC-2017JUL21-004.

¹⁴² Exhibit 22741-X0098, FAI-CCA-2017SEP07-012.

¹⁴³ Exhibit 22741-X0014, Appendix A-6, PDF page 3.

164. Fortis provided details of the WPF Program in Appendix A-6 of the application.¹⁴⁴ Fortis explained that the WPF Program includes three components: WPF, Trouble Switches and Customers with Multiple Outages (CMO). The three components are described below:¹⁴⁵

- (a) WPF: the bottom three per cent of feeders with the worst reliability performance.
- (b) Trouble Switches: line sections with multiple or sustained outages caused by trouble switches.
- (c) CMO: line sections of feeders with 50 or more customers experiencing six or more outages over a 12-month period.

165. Fortis provided more detailed descriptions of each of the three components to the WPF Program.

Worst Performing Feeders component

166. Fortis explained that since 2000, it has undertaken a WPF Program that focuses on upgrades and repairs for those circuits with the highest number of outages on the distribution system.¹⁴⁶

167. In its business case, Fortis indicated that it reviews the following reliability data to order feeders from worst to best:

- customer-hours of interruption
- number of outages
- system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI) and protection equipment counter readings
- circuit criticality
- number of customers served by the feeder¹⁴⁷

168. In categorizing the data, Fortis arranges outage maps for the 30 worst performing distribution feeders to highlight locations of reported outages and their respective causes. Line patrol records assist in identifying problems and solutions. The preliminary WPF list is then narrowed down to the bottom three per cent (as per Section 4.4.3(1) of Rule 002¹⁴⁸) of the worst performing distribution feeders in Fortis' service territory. Once the causes of reliability issues are determined, an implementation plan is executed.¹⁴⁹

169. Fortis explained that its service territory has a low load density, is predominantly rural, and its rural customers are served by extended overhead radial lines that may experience frequent and extended outages. However, Fortis continued, "the SAIDI associated with these outages

¹⁴⁴ Exhibit 22741-X0014, Appendix A-6, Worst Performing Feeders Program.

¹⁴⁵ Exhibit 22741-X0014, Appendix A-6, PDF page 6.

¹⁴⁶ Exhibit 22741-X0014, Appendix A-6, PDF page 7.

¹⁴⁷ Exhibit 22741-X0014, Appendix A-6, PDF page 7.

¹⁴⁸ Rule 002: *Service Quality and Reliability Performance Monitoring and Reporting for Owners of Electric Distribution Systems and for Gas Distributors.*

¹⁴⁹ Exhibit 22741-X0014, Appendix A-6, PDF page 7.

would not necessarily make these feeders meet the Rule 002 criteria in determining the 3% of worst performing feeders.”¹⁵⁰

170. Fortis noted that while the Rule 002 criteria for WPFs are system-focused, its evaluation process is customer-centric. Fortis provided a table that shows that using its formalized evaluation process, the average SAIDI value for affected customers is 13.50 hours, which is 11.79 hours above the 2015 normalized SAIDI value for all customers of 1.71 hours. The WPF component of this program addresses customers with reliability issues that would not have been addressed using Rule 002, as shown in the table below.¹⁵¹

Table 6. 2015 customer experience – WPF component*

	SAIDI average (hours)	SAIFI average (hours)	SAIDI above system average (%)	SAIFI above system average (%)	Customers impacted
Distribution system	1.71	1.25	-	-	
WPFs	13.50	3.94	689	215	6,997

Source: Exhibit 22741-X0014, Appendix A-6, PDF page 10.

* Excludes major event days and loss of supply.

Trouble Switches component

171. Fortis modified the WPF Program in 2008 to include the Trouble Switches component and explained that trouble switches are protective devices that isolate line sections of feeders. It stated that it is possible that customers served through those trouble switches may experience poor reliability that might not be identified through feeder reliability statistics and that trouble switches that are activated four or more times in a year, due to unplanned power outages, are identified and analyzed for reliability improvement. Approximately 150 trouble switches are addressed each year, which represents 0.15 per cent of all the line switches in the system.¹⁵²

172. Fortis explained that outage statistics are mapped to common upstream trouble switches to identify specific reliability issues. The resulting sections of feeders are repaired in the Trouble Switches component as part of the WPF Program.

173. Fortis provided the following table showing the 2015 average SAIDI and SAIFI for customers affected by the Trouble Switches component compared to the 2015 normalized system average for all customers:¹⁵³

¹⁵⁰ Exhibit 22741-X0014, Appendix A-6, PDF page 9.

¹⁵¹ Exhibit 22741-X0014, Appendix A-6, PDF page 10.

¹⁵² Exhibit 22741-X0014, Appendix A-6, PDF page 10.

¹⁵³ Exhibit 22741-X0014, Appendix A-6, PDF page 11.

Table 7. 2015 customer experience – Trouble Switches component*

	SAIDI average (hours)	SAIFI average (hours)	SAIDI above system average (%)	SAIFI above system average (%)	Customers impacted
Distribution system	1.71	1.25	-	-	
Trouble switches	7.78	5.44	354	335	1,887

Source: Exhibit 22741-X0014, Appendix A-6, Table 3, PDF page 11.

* Excludes major event days and loss of supply.

Customers with Multiple Outages component

174. Fortis modified the WPF Program in 2011 to address reliability for circuits where 50 or more customers experienced six or more outages in the preceding year. It stated that the CMO component of the WPF Program addresses reliability issues for approximately 15,000 customers (or three per cent of Fortis' total customers). Fortis provided an example, indicating that "since 2011, no feeders within the Leduc service point were identified under the WPF Component. However, the outages occurring in Leduc were of concern to the growing municipality and surrounding county. [...] Under the CMO Component, FortisAlberta improved reliability within the Leduc service point."¹⁵⁴

175. Fortis provided the table below, showing the 2015 average SAIDI and SAIFI for customers affected by the CMO component, compared to the 2015 normalized system average for all customers, that demonstrates that the affected customers are receiving levels of service below the system average.¹⁵⁵

Table 8. 2015 customer experience – CMO component*

	SAIDI average (hours)	SAIFI average (hours)	SAIDI above system average (%)	SAIFI above system average (%)	Customers impacted
Distribution system	1.71	1.25	-	-	
CMOs	18.11	7.77	959	522	22,426

Source: Exhibit 22741-X0014, Appendix A-6, Table 4, PDF page 13.

* Excludes major event days and loss of supply.

176. The Commission denied the inclusion of the Trouble Switches and CMO components of the WPF Program for the 2015 forecast in Decision 3220-D01-2015.¹⁵⁶ However, Fortis noted that in Decision 20497-D01-2016,¹⁵⁷ the Commission approved the inclusion of Trouble Switches and CMO components as part of the WPF Program for 2014 on an actual basis.¹⁵⁸

177. For the WPF Program, Fortis provided a table summarizing the number of customers affected and the related expenditures for each of the three components of the 2016 WPF program, and indicated that the Trouble Switches and CMO components are a more cost-effective way of addressing specific reliability issues for customers, and further stated that its

¹⁵⁴ Exhibit 22741-X0014, Appendix A-6, PDF pages 11-13.

¹⁵⁵ Exhibit 22741-X0014, Appendix A-6, Table 4, PDF page 13.

¹⁵⁶ Decision 3220-D01-2015, paragraph 313.

¹⁵⁷ Decision 20497-D01-2016, paragraphs 337-338.

¹⁵⁸ Exhibit 22741-X0014, Appendix A-6, PDF pages 3-4.

“ability to provide service at adequate levels would be compromised if all three components of this Program were not completed.”¹⁵⁹

Table 9. 2016 WPF Program affected customers, capital expenditures and capital expenditures per customer

Component	Customers impacted	Capital expenditures (\$ million)	Capital expenditures per customer (\$ per customer)
WPFs	6,977	1.8	258
Trouble Switches	1,887	0.3	159
CMOs	22,426	3.8	169

Source: Exhibit 22741-X0014, Appendix A-6, Table 5, PDF page 13.

178. The 2016 approved forecast capital additions for the WPF program were \$5.2 million in 2016, while the actual capital additions were \$7.0 million, resulting in a positive variance of \$1.8 million. The 2016 approved forecast capital expenditures for this program were \$5.4 million, while the actual 2016 capital expenditures were \$5.9 million, resulting in a \$0.5 million positive variance.¹⁶⁰ Fortis provided the following table showing the 2016 approved forecast and actual capital expenditures for the WPF Program, by component:

Table 10. 2016 WPF Program capital expenditures

Component	2016 forecast	2016 actual	Variance over/(under)
	(\$ million)		
WPFs	3.2	1.8	(1.4)
Trouble Switches	1.5	0.3	(1.2)
CMOs	0.7	3.8	3.1
Total	5.4	5.9	0.5

Source: Exhibit 22741-X0014, Appendix A-6, PDF page 22, Table 7.

179. Fortis explained that in 2016, capital expenditures were lower than forecast for the WPF and Trouble Switches components because the issues on the identified feeders were remediated at a lower cost than forecast. Capital expenditures for CMOs were higher than forecast, driven by major projects in the Okotoks and Athabasca areas that were required to meet reliability needs.¹⁶¹

180. In response to a Commission IR, Fortis explained that the forecast method for each component is based on the average of the previous three years, escalated by the consumer price index (CPI), and because the company does not forecast by individual cost category, it is not able to provide variance explanations by individual cost category. Fortis elaborated on its variance explanation, stating the solutions identified for each feeder in the WPF component required fewer upgrades to protection devices, less reconductoring, and less re-spanning of line sections compared to forecast. For the Trouble Switches Component, the costs trended down due to

¹⁵⁹ Exhibit 22741-X0014, Appendix A-6, PDF pages 13-14.

¹⁶⁰ Exhibit 22741-X0014, application, paragraph 68, Table 12.

¹⁶¹ Exhibit 22741-X0014, Appendix A-6, PDF page 22.

improvements in analyzing and addressing the root cause of an interruption at the time of restoration, as well as a fewer number of switches that needed to be addressed.¹⁶²

181. Fortis further stated that for the CMO component, seven projects in the areas north and west of Okotoks, in the Athabasca area, and Chestermere accounted for over two-thirds of the total CMO expenditure, and that these customers have been experiencing increased levels of service interruption. These projects included the relocation of sections of line along road allowances, addition of poles to shorten span lengths, removal of neutrals to reduce potential for conductor contacts, and the installation of protection devices, such as reclosers and switches, to improve reliability. Certain areas required the use of rig mats to meet terrain and environmental protection requirements. Nodwell-tracked vehicles were also required in certain areas to gain access to portions of the lines, and equipment, such as directional drills, were also required for road pushes.¹⁶³

182. No issues were raised by the UCA or the CCA in argument or reply argument for the Urgent Repairs, WPF, or CSAR programs.

Commission findings

183. In Decision 20497-D01-2016, the Commission approved the need for the Urgent Repairs, WPF, and CSAR programs for the purposes of capital tracker treatment for 2016 and 2017, and determined that the proposed scope, level, timing and forecast costs for these programs were reasonable.

184. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a program was not required in 2016, there is no need to demonstrate that a program was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Urgent Repairs, WPF and CSAR programs were not required in 2016.

185. With respect to the scope, level and timing of the programs carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$31.8 million for 2016 associated with these programs and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the total actual costs for these programs were \$0.7 million higher than the approved forecast primarily because of the high volume of porcelain switch failures in recent years and CMOs being higher than forecast, driven by major projects in the Okotoks and Athabasca areas that were required to meet reliability needs. The Commission has also reviewed the costs of the actual capital additions for these capital tracker programs in light of the evidence supporting these costs and finds the actual costs to be prudent, and the variance explanations to be reasonable. Accordingly, the Urgent Repairs, WPF, and CSAR programs satisfies the project assessment requirement of Criterion 1 in 2016.

¹⁶² Exhibit 22741-X0077, FAI-AUC-2017JUL21-002.

¹⁶³ Exhibit 22741-X0077, FAI-AUC-2017JUL21-002.

7.1.6 Pole Management Program

7.1.6.1 2016 actual program costs

186. The Pole Management Program consists of replacing poles that fail inspection and maximizing the service life of all existing poles through life extension measures such as stubs, wraps and treatments. Under this program, Fortis undertakes pole inspection and testing measures to determine the condition of a pole. Pole replacements are also determined based on Fortis' end-of-life inspection criteria. The replacement of poles includes like-for-like replacements and line-rebuild replacements, which also include line realignments. Fortis provided details of the Pole Management Program in Appendix A-7 of the application.¹⁶⁴ The need for this program as part of project assessment under capital tracker Criterion 1 was previously approved in Decision 3220-D01-2015,¹⁶⁵ and again in Decision 20497-D01-2016, for 2016.¹⁶⁶

187. The 2016 approved forecast capital additions for this program were \$40.7 million, while the actual 2016 capital additions were \$46.2 million, resulting in a \$5.5 million positive variance.¹⁶⁷ The 2016 approved forecast capital expenditures for this program were \$41.6 million, while the actual 2016 capital expenditures were \$45.4 million, resulting in a \$3.8 million positive variance.¹⁶⁸

188. Fortis provided the following table showing the 2016 actual volumes, unit costs and capital expenditures below:

Table 11. Pole Management Program 2016 volumes, units costs and capital expenditures¹⁶⁹

	Volumes			Unit costs (\$)			Capital expenditures (\$ million)		
	2016 forecast	2016 actual	Variance	2016 forecast	2016 actual	Variance	2016 forecast	2016 actual	Variance
Replacements (including line rebuilds)	12,000	9,892	(2,108)	2,780	3,797	1,017	33.3	37.6	4.3
Stubs	336	128	(208)	532	731	199	0.2	0.1	(0.1)
Wraps	80,064	75,763	(4,301)	51.34	47.27	(4.0)	4.1	3.6	(0.5)
Treatments	129,536	126,397	(3,139)	29.79	32.70	2.9	3.9	4.1	0.2
Total							41.6	45.4	3.8

Source: Exhibit 22741-X0012, Appendix A-7, Pole Management program, Table 6 and Table 7, PDF pages 17-18.

189. Fortis explained that the volumes for pole replacements were lower than forecast due to a higher proportion of poles being identified for complete line rebuilds. Fortis stated that line-rebuild projects have longer durations than like-for-like pole replacements given the extended lead time in planning and engineering, design, and obtaining approvals. Fortis confirmed, in an IR to the Commission, that all the butt-treated poles not replaced in 2016 are planned for

¹⁶⁴ Exhibit 22741-X0012, Appendix A-7, Pole Management Program.

¹⁶⁵ Decision 3220-D01-2015, paragraph 355.

¹⁶⁶ Decision 20497-D01-2016, paragraphs 236 and 241.

¹⁶⁷ Exhibit 22741-X0038, application, Table 15, PDF page 28.

¹⁶⁸ Exhibit 22741-X0012, Appendix A-7, Table 7, PDF page 18.

¹⁶⁹ The Commission calculated the volume and unit costs variance columns and the capital expenditures row for replacements.

replacement in 2017.¹⁷⁰ The overall unit cost for pole replacements was higher than the forecast due to the physically challenging construction environment for the higher number of butt-treated poles. Fortis stated that line construction in these regions, primarily in the Canmore area, added levels of complexity compared to construction in typical areas across Fortis' service territory. The rugged and rocky terrain introduced challenges for both pole installation and line stringing, thereby increasing the costs on a per unit basis. Many of the line-rebuild projects were also located in federal or provincial parks, where costs were higher due to underground construction, environmental and parks approval requirements, wildlife permits, river crossings, highway crossings, use of specialized construction tools and special reclamation requirements.¹⁷¹

190. In 2016, Fortis installed a higher proportion of stubs in rocky terrain. The unit cost increased in comparison to the forecast because stubs in this type of environment are typically more labour intensive to install.¹⁷²

191. The number of wraps and treatments are dependent on the number of poles on the circuits being tested that meet the criteria for receiving wraps and treatments. Fortis explained that the lower volumes of wraps and treatments were primarily due to poles on the circuits patrolled being of newer vintage. These newer assets are not treated or wrapped until they reach a certain age. This contributed to the reduction in volumes, as compared to previous years.¹⁷³

192. In 2016, Fortis worked on a greater number of feeders in the Pincher Creek and Canmore areas, as compared to other years. Fortis explained that poles on these feeders are difficult to access and have higher mobilization and demobilization costs. This resulted in increased unit costs for treatments.¹⁷⁴

193. Fortis also revised its tender process in 2016, which led to a decrease in the unit cost for the wraps. Fortis explained that its revised tender process considered the geographical location of the contractors and associated travel requirements. This resulted in contractors bidding optimally based on location, which decreased the unit cost for pole wraps.¹⁷⁵

Commission findings

194. In Decision 20497-D01-2016, the Commission approved the need for the Pole Management Program for the purposes of capital tracker treatment for 2016, and determined that the proposed scope, level, timing and forecast costs for this program were reasonable.

195. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a program was not required in 2016, there is no need to demonstrate that a program was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Pole Management Program was not required in 2016.

¹⁷⁰ Exhibit 22741-X0077, FAI-AUC-2017JUL21-020(d).

¹⁷¹ Exhibit 22741-X0077, FAI-AUC-2017JUL21-020 (e).

¹⁷² Exhibit 22741-X0077, FAI-AUC-2017JUL21-020 (j).

¹⁷³ Exhibit 22741-X0077, FAI-AUC-2017JUL21-020 (j).

¹⁷⁴ Exhibit 22741-X0077, FAI-AUC-2017JUL21-020 (j).

¹⁷⁵ Exhibit 22741-X0077, FAI-AUC-2017JUL21-020 (j).

196. With respect to the scope, level and timing of the program carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$46.2 million for 2016 associated with this program and finds they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the actual costs were \$5.5 million higher than the approved forecast primarily because of the physically challenging construction environment for the higher number of butt-treated poles, including rocky terrain that is difficult to access, thereby resulting in higher mobilization and demobilization costs. The Commission has also reviewed the costs of the actual capital additions for this capital tracker program in light of the evidence supporting these costs and finds the actual costs to be prudent and the variance explanations to be reasonable. Accordingly, the Pole Management Program satisfies the project assessment requirement of Criterion 1 in 2016.

7.1.6.2 Response to Commission directions pertaining to the incremental cost of conductor upgrades within the Pole Replacement Program

197. In paragraph's 179 and 180 of Decision 21538-D01-2017, dealing with Fortis' 2015 capital tracker true-up application, the Commission issued two directions with respect to the 154L and the Redwater Thorhild rebuild 9.6 km of 439L line-rebuild projects undertaken in the Pole Management Program.

198. In paragraph 179 of Decision 21538-D01-2017, Fortis was directed to reassess the grouping of the incremental cost of conductor upgrades within the Pole Replacement Program, and to explain fully why the incremental cost component could not be disaggregated by program. Fortis was also directed to explain why the grouping of the conductor upgrades would not have met the criteria under a different capital tracker or non-capital tracker program, such as the DCI Program.¹⁷⁶

199. In response to this direction, Fortis stated that the grouping of conductor upgrades, in conjunction with line-rebuild projects, does not meet the criteria defined under the DCI Program. Fortis explained that it has grouped its capital tracker programs based on the primary driver of the activity and that the costs associated with projects identified and completed using these primary drivers are charged to the Pole Management Program.¹⁷⁷ In the case of these installations, the primary driver is the rebuilding of an asset at the end of its useful service life, and not capacity upgrading or reliability deficiencies. Fortis explained that there are times where the completion of a line-rebuild project results in the installation of a higher capacity conductor, which increases distribution capacity.¹⁷⁸

200. Fortis also explained that the timing of the driver for the project determines where the costs are expensed. For example, projects where the primary driver is the replacement of defective poles are charged to the Pole Management Program while projects where the primary driver is to address potential problems associated with load growth (i.e., low voltage and thermal overload) are completed under the DCI Program.¹⁷⁹

¹⁷⁶ Decision 21538-D01-2017, paragraph 179.

¹⁷⁷ Exhibit 22741-X0038, application, paragraphs 15-17.

¹⁷⁸ Exhibit 22741-X0077, FAI-AUC-2017JUL21-017.

¹⁷⁹ Exhibit 22741-X0077, FAI-AUC-2017JUL21-017.

201. Fortis also stated that this practice, of including the costs associated with conductor upgrades in conjunction to a line-rebuild project was put in place prior to the first generation PBR term. It is also prudent and operationally efficient to include a higher capacity conductor based on anticipated load growth within a line-rebuild project. This is because it leverages planning, design, and construction resources.¹⁸⁰

202. With respect to this direction, the UCA stated that Fortis did not comply with the portion of the Commission's direction that required Fortis to explain why the grouping of the conductor upgrades did not meet the criteria under a different capital tracker program (i.e., DCI Program) or any other capital tracker or non-capital tracker program. The UCA recommended that Fortis be directed to comply with this direction in a compliance filing to this decision. The UCA also stated that two separate activities are being combined into one capital tracker program, and that Fortis should be directed to explain why the costs of installing the upgraded conductors could not be recorded separately from the costs properly included within the Pole Management Program, even if the work is being done contemporaneously.¹⁸¹

203. In paragraph 180 of Decision 21538-D01-2017, Fortis was directed to identify the incremental costs of conductor upgrades performed in conjunction with the line-rebuild replacement for the 154L and the Redwater Thorhild rebuild 9.6 km of 439L line-rebuild projects within the Pole Replacement Program. Fortis was also directed to track the incremental costs of these conductor upgrades associated with all line-rebuild projects on a go-forward basis.¹⁸²

204. In response to this direction, Fortis provided an estimate of the incremental costs associated with the conductor upgrades for these two line-rebuild projects. The estimate was based on comparing the estimated unit costs using Fortis' construction quotation tool on a "per km" basis.¹⁸³ The incremental cost for the 154L line-rebuild project is approximately 7.5 per cent of the project cost amount of \$324,000. Using Fortis' estimation method, this results in incremental costs of \$26,188.¹⁸⁴ For the Redwater Thorhild line-rebuild project, the incremental costs associated with this project are also approximately 7.5 per cent of the project cost amount of \$740,783. Using Fortis' estimation method, this results in incremental costs of \$44,259.¹⁸⁵

205. Fortis also explained that it is unable to track the actual incremental costs associated with conductor upgrades on a project-by-project basis. This is because every project is unique based on how the line is designed and has many variables to consider. As a result, the actual costs can vary due to numerous complexities and circumstances particular to the project.¹⁸⁶ Furthermore, in practice, employees or contractors working on a line-rebuild project do not differentiate the costs between installing different conductor sizes. Therefore, an accurate allocation of material, labour hours, and third-party costs between projects incorporating different conductor sizes cannot be determined.¹⁸⁷

¹⁸⁰ Exhibit 22741-X0077, FAI-AUC-2017JUL21-017.

¹⁸¹ Exhibit 22741-X0108, UCA argument, paragraph 11.

¹⁸² Decision 21538-D01-2017, paragraph 180.

¹⁸³ Exhibit 22741-X0038, application, paragraph 18.

¹⁸⁴ Exhibit 22741-X0010, PDF page 16.

¹⁸⁵ Exhibit 22741-X0010, PDF page 19.

¹⁸⁶ Exhibit 22741-X0080, FAI-UCA-2017JUL21-001(a) and (d).

¹⁸⁷ Exhibit 22741-X0038, application, paragraph 18.

206. With respect to this direction, the UCA stated that Fortis did not provide a reasonable explanation for not issuing any directions to its employees and contractors to record its costs. The UCA stated that Fortis should be directed, on a go forward basis, to comply with this direction and that the Commission should also take the opportunity to impress upon Fortis, and by extension, other utilities in Alberta, the importance of complying with Commission directions.¹⁸⁸

Commission findings

207. With respect to the direction set out in paragraph 179 of Decision 21538-D01-2017, Fortis provided its reasoning as to why the incremental costs of conductor upgrades, in conjunction with line-rebuild projects, are included in the Pole Replacement Program. As approved in prior decisions, the Commission has agreed with Fortis that the primary driver for the line rebuilds is the replacement of deteriorated poles. Fortis has explained that it groups its programs in accordance with how it manages its operations and that costs associated with a line-rebuild project for which the primary driver is the replacement of defective poles are charged to the Pole Management Program. This primary driver for the line-rebuild projects is not for capacity or reliability deficiencies. For the purposes of this decision, the Commission is prepared to accept Fortis' explanations regarding the grouping of the incremental costs of conductor upgrades with the Pole Replacement Program. Accordingly, the Commission finds that Fortis has complied with the direction outlined in paragraph 179 of Decision 21538-D01-2017.

208. In accordance with the direction set out in paragraph 180 of Decision 21538-D01-2017, Fortis provided estimates of the incremental costs associated with the conductor upgrades for the 154L and the Redwater Thorhild rebuild 9.6 km of 439L line-rebuild projects. The Commission has reviewed these estimates and finds them to be reasonable. Fortis also elaborated on its limitations in providing the actual incremental costs associated with these conductor upgrades, where in practice, employees or contractors do not differentiate the costs between installing different conductor sizes. Due to these limitations, the Commission accepts that the actual costs from incorporating different conductor sizes cannot be shown separately by Fortis. Accordingly, the Commission finds that Fortis has met the direction outlined in paragraph 180 of Decision 21538-D01-2017.

7.1.7 Cable Management Program

209. The Cable Management Program consists of replacing or extending the service life of underground cables that have reached the end of their service life. The service life of an underground cable is extended through rejuvenation or replacement. Fortis provided details of the Cable Management Program in Appendix A-8 of the application.¹⁸⁹ The need for this program as part of the project assessment under capital tracker Criterion 1, was approved Decision 3220-D01-2015,¹⁹⁰ and again in Decision 20497-D01-2016, for 2016.¹⁹¹

210. The 2016 approved forecast capital additions for this program were \$6.5 million, while the actual 2016 capital additions were \$9.5 million, resulting in a \$3.0 million positive

¹⁸⁸ Exhibit 22741-X0108, UCA argument, paragraphs 29-30.

¹⁸⁹ Exhibit 22741-X0007, Appendix A-8, Cable Management Program.

¹⁹⁰ Decision 3220-D01-2015, paragraph 422.

¹⁹¹ Decision 20497-D01-2016, paragraph 173.

variance.¹⁹² The 2016 approved forecast capital expenditures for this program were \$6.4 million, while the actual 2016 capital expenditures were \$9.4 million, resulting in a \$3.0 million positive variance.¹⁹³

211. Of these total amounts, the 2016 approved forecast capital expenditures for cable rejuvenation were \$4.4 million, while the actual 2016 capital expenditures were \$6.6 million, resulting in a \$2.2 million positive variance. The 2016 approved forecast capital expenditures for cable replacement were \$2.0 million, while the actual 2016 capital expenditures were \$2.8 million, resulting in a \$0.8 million positive variance.¹⁹⁴

212. Fortis explained that the primary causes of the variances were increases in the volumes of cables requiring replacement and rejuvenation and the unit cost of the same. For the cable rejuvenation component of the program, the Commission approved a forecast volume of 82.8 kilometres (km) at a unit cost of \$53 per metre. In 2016, Fortis completed 95.7 km at an actual unit cost of \$69 per metre. For the cable replacement component of the program, the Commission approved a forecast volume of 9.2 km at a unit cost of \$214 per metre. In 2016, Fortis completed 12.0 km at an actual unit cost of \$236 per metre.¹⁹⁵

213. Fortis explained that it increased the volume of cable rejuvenation projects in 2016 to account for a shortfall of 28.6 km experienced in 2014. Of the 28.6 km shortfall, Fortis rejuvenated 12.9 km of cables in 2016. Fortis stated that 7.8 km of the shortfall experienced in 2014 will be addressed prior to the end of 2019.¹⁹⁶ Fortis attributed the increase of 2.8 km of cable replacement to a project completed in the Olds area in 2016, where underground cable was not injectable and, therefore, not capable of being rejuvenated.¹⁹⁷

214. For both cable replacement and rejuvenation, the increase in unit cost was primarily attributed to the scope of work for each project completed in 2016. For cable rejuvenation, the unit cost was higher than forecast due to increased third party costs and internal labour costs. For example, a greater number of splices was required in urban areas in comparison to the approved forecast, resulting in increased hydrovac, backfill and landscaping costs. Internal labour costs also were higher than forecast to increased splicing and increased switching activities.¹⁹⁸

215. Fortis explained that a higher than forecast volume of cable replacement was conducted in urban areas. Additional resources were also required to coordinate switching activities. Fortis also experienced an increase in costs associated with designing, planning and obtaining approvals, and increased external contractor services.¹⁹⁹

¹⁹² Exhibit 22741-X0038, application, Table 17, PDF page 29.

¹⁹³ Exhibit 22741-X0007, Table 7, PDF page 22.

¹⁹⁴ Exhibit 22741-X0007, Table 7, PDF page 22.

¹⁹⁵ Exhibit 22741-X0007, Table 6, PDF page 22.

¹⁹⁶ Exhibit 22741-X0077, FAI-AUC-2017JUL21-018(a).

¹⁹⁷ Exhibit 22741-X0077, FAI-AUC-2017JUL21-019.

¹⁹⁸ Exhibit 22741-X0077, FAI-AUC-2017JUL21-018(b).

¹⁹⁹ Exhibit 22741-X0077, FAI-AUC-2017JUL21-018(b).

Commission findings

216. In Decision 20497-D01-2016, the Commission approved the need for the Cable Management Program for the purposes of capital tracker treatment for 2016 and determined that the proposed scope, level, timing and forecast costs for this program were reasonable.

217. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a program was not required in 2016, it is not necessary to demonstrate that a program was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the Cable Management Program was not required in 2016.

218. With respect to the scope, level and timing of the program carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$9.5 million for 2016 associated with this program and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the total actual costs were \$3.0 million higher than the approved forecast of \$6.5 million in capital additions and were primarily because of the a higher number of volumes requiring cable replacement and cable rejuvenation as well as a higher unit cost for each of cable replacement and cable rejuvenation. The Commission has also reviewed the costs of the actual capital additions for this capital tracker program in light of the evidence supporting these costs and finds the actual costs to be prudent, and the variance explanations to be reasonable. Accordingly, the Cable Management Program satisfies the project assessment requirement of Criterion 1 in 2016.

7.1.8 DCC/SCADA Project

219. The DCC/SCADA Project consists of the implementation of a centralized DCC at Fortis' Airdrie operations building and the retrofitting or installation of SCADA field equipment that is able to communicate with the DCC. Fortis provided details of the DCC/SCADA Project in Appendix A-9 of the application.²⁰⁰ The need for this project as part of project assessment under capital tracker Criterion 1 was approved in decisions 2013-435,²⁰¹ 3220-D01-2015²⁰² and 20497-D01-2016²⁰³ for 2016.

220. The 2016 approved forecast capital additions for this project were \$4.4 million, while the actual 2016 capital additions were \$6.1 million, resulting in a \$1.7 million positive variance.²⁰⁴ The 2016 approved forecast capital expenditures for this project were \$4.4 million, while the actual 2016 capital expenditures were \$5.4 million, resulting in a \$1.0 million positive variance.²⁰⁵

221. Fortis indicated that the actual 2016 capital expenditures were \$1.0 million higher than forecast because of higher Distribution Automation (DA) schemes of \$1.0 million caused by

²⁰⁰ Exhibit 22741-X0005, Appendix A-9, DCC/SCADA Project.

²⁰¹ Decision 2013-435, paragraph 1052.

²⁰² Decision 3220-D01-2015, paragraph 454.

²⁰³ Decision 20407-D01-2016, paragraph 294.

²⁰⁴ Exhibit 22741-X0038, application, Table 19, PDF page 31.

²⁰⁵ Exhibit 22741-X0038, application, Table 19, PDF page 31.

higher DA scheme costs, scope changes and the addition of two new projects. Fortis provided a further breakdown of the \$1.0 million DA schemes variance as follows:

- \$0.2 million for the Camrose DA Project scheme primarily driven by a different mix of overhead Intelligent Electronic Devices (IED) versus underground IED to enhance fault detection resolution and provide additional coverage, sectionalizing and fault isolation capabilities,
- \$0.1 million for the Chestermere DA Project scheme driven by design optimization with the relocation of two overhead IEDs and the upgrade of one overhead IED to enhance electric service restoration capability,
- \$0.1 million for the Cochrane DA Project scheme due to IT costs related software licencing not contemplated in the original forecast,
- \$0.1 million for the High River DA Project scheme due to higher than anticipated commissioning and testing costs resulting from necessary but unanticipated setting revisions,
- \$0.1 million for the Strathmore DA Project scheme driven by the requirement to replace a faulty overhead IED in order to ensure effective integration with the DA scheme,
- \$0.1 million for the St. Albert DA Project scheme related to an operational requirement to advance the IED radio communication conversion to resolve issues that increased the DA restoration times, and
- \$0.3 million for the Balzac DA Project scheme related to the addition of three underground IEDs to provide additional coverage, sectioning and fault isolation capabilities.²⁰⁶

222. In response to a Commission IR, Fortis provided more detail on the increased requirement for GPS clocks explaining that not all existing electronic recloser controllers have the capability to incorporate GPS clocks. Fortis forecast the number of recloser controllers capable of incorporating GPS clocks to be 58 but field assessments revealed the actual number to be 65.²⁰⁷

223. Fortis also indicated it installed fewer units of electronic reclosures but there was no corresponding reduction in actual capital additions when compared to forecast. Fortis explained that the 2016 Electric upgrade actual unit cost was \$1,100 higher than forecast as a result of an increased requirement for GPS clocks and an increased number of sites requiring controller replacements.²⁰⁸

224. In Decision 20407-D01-2016, the Commission directed Fortis in the compliance filing and in all subsequent capital tracker true-up applications, to provide a reconciliation of the scope

²⁰⁶ Exhibit 22741-X0005, Appendix A-9, DCC/SCADA project, PDF pages 15-18.

²⁰⁷ Exhibit 22741-X0077, FAI-AUC-2017JUL21-016, PDF page 37.

²⁰⁸ Exhibit 22741-X0005, Appendix A-9, DCC/SCADA project, PDF page 16.

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, as well as a breakdown of units and unit costs for the project components.²⁰⁹ Fortis provided this information in Appendix A-9 of the application.²¹⁰

Commission findings

225. In Decision 20497-D01-2016, the Commission approved the need for the DCC/SCADA Project for the purposes of capital tracker treatment for 2016, and determined that the proposed scope, level, timing and forecast costs for this program were reasonable.

226. With respect to the true-up of 2016 actual costs, as noted in Section 4, if there is no evidence on the record of the true-up proceeding demonstrating that a project was not required in 2016, there is no need to demonstrate that a project was needed in order to provide utility service at adequate levels in 2016, as would otherwise be required under the project assessment component of Criterion 1. The Commission finds no evidence on the record of this proceeding to indicate that the DCC/SCADA Project was not required in 2016.

227. The Commission has reviewed the information in Appendix A-9 of the application, which provides a reconciliation of the scope of work corresponding with the forecast cost for this project in a given year, a variance explanation on the actual costs, and a breakdown of units and unit costs for the project components. The Commission is satisfied that this information complies with the direction provided in Decision 20407-D01-2016 and directs Fortis to continue to file this information in future capital tracker true-up applications.

228. With respect to the scope, level and timing of the project carried out in 2016, the Commission has reviewed Fortis' actual net capital additions of \$6.1 million for 2016 associated with this project and finds that they are generally consistent with the scope, level and timing of the work outlined in the business case for this capital tracker and approved in Decision 20497-D01-2016. The Commission accepts Fortis' explanation that the total actual costs were \$1.7 million higher than the approved forecast primarily because of higher capital expenditures, CWIP and retirements. The Commission has also reviewed the costs of the actual capital additions for this capital tracker project in light of the evidence supporting these costs and finds the actual costs to be prudent, and the variance explanations to be reasonable. Accordingly, the DCC/SCADA Project satisfies the project assessment requirement of Criterion 1 in 2016.

7.2 Load Settlement Replacement Project

229. This project was not previously applied for in capital tracker applications. In this application, Fortis requested capital tracker treatment of this project for 2016 on an actual basis. To demonstrate that this project complies with the criteria set out for capital trackers and with the Commission's minimum filing requirements, Fortis provided a business case in Appendix A-11 to the application.²¹¹

²⁰⁹ Decision 21538-D01-2017, paragraphs 204-205.

²¹⁰ Exhibit 22741-X0005, Appendix A-9, DCC/SCADA project, Table 2, PDF page 13.

²¹¹ Exhibit 22741-X0003, Appendix A-11.

230. In the application, Fortis explained that:

Fortis is a Load Settlement Agent (LSA), as defined by AUC Rule 021: *Settlement System Code Rules*. Load settlement obligations began with the deregulation of the Alberta electricity market on January 1, 2001. From that date until September 2016, FortisAlberta used the EVE application to perform load settlement functions, and to receive and create the required market transactions and reports.... The EVE application was used to support the Company in meeting its legislative and regulatory obligations to determine the hourly consumption of energy for provision to the AESO and retailers, and to identify the parties responsible for purchases of energy exchanged through the power pool and make required adjustments to these transactions. A Post Final Adjustment Mechanism (PFAM) custom solution was implemented at FortisAlberta in 2004, which provided a mechanism to correct errors that are discovered in final settlement without necessitating a re-settlement for the entire market.²¹²

231. Fortis explained that in December 2012, the vendor of the EVE Load Settlement application advised Fortis that it would be phasing out its EVE product and would not be providing an alternative solution, and that going forward, it could only commit to provide support on a “best-efforts” basis. In addition, Fortis stated that the EVE Load application operated in the Windows Server 2003 environment, for which extended support was terminating in July 2016.²¹³

232. Throughout 2013 and 2014, Fortis began investigating solutions with other utilities and vendors for the replacement of its Load Settlement application, while it was undertaking major upgrades to its SAP application platform. Fortis further stated that it settles approximately 45 per cent of the electric energy traded annually through the power pool in Alberta; consequently, it was essential that its load settlement application be fully supported and adaptable to ensure continuing compliance with applicable legislative and regulatory requirements.²¹⁴

233. Fortis issued a request for proposal (RFP) for the Load Settlement Replacement Project on December 15, 2014. The successful vendor was identified on April 8, 2015, and the project cost estimate was subsequently refined by taking into account the requirements for hardware and software development, data conversion, and testing required to deliver the project by the end of the third quarter of 2016. Fortis explained that costs were reviewed monthly to ensure adherence to the budget and regular testing was done to identify and resolve any issues early in the testing phases.²¹⁵

234. The total cost of the Load Settlement Replacement Project was \$13.5 million, with the majority of capital additions taking place in 2016.²¹⁶ Specifically, the 2016 actual capital expenditures for this project were \$7.8 million, the 2015 actual capital expenditures were \$5.6 million, and the 2014 actual capital expenditures were \$0.1 million.²¹⁷ The 2016 actual capital additions for this project were \$12.7 million, while the actual 2015 capital additions were \$0.2 million.

²¹² Exhibit 22741-X0038, application, paragraph 89.

²¹³ Exhibit 22741-X0038, application, paragraph 90.

²¹⁴ Exhibit 22741-X0002, Appendix A-11, Load Settlement Replacement Project, PDF page 2.

²¹⁵ Exhibit 22741-X0003, Appendix A-11, Load Settlement Replacement Project, PDF page 13.

²¹⁶ Exhibit 22741-X0038, application, paragraph 91.

²¹⁷ Exhibit 22741-X0038, application, paragraph 93, Table 21.

235. For this project, Fortis implemented new systems and applications by leveraging its existing SAP application platform, to replace functionality previously provided by the EVE and PFAM applications. Fortis explained that each of these project components and their respective integration tools enabled it to meet its business requirements and ensure compliance with its market obligations. The Load Settlement Replacement Project was deployed on September 25, 2016, and the first daily settlement market files generated by the new system were sent to the AESO and retailers on September 26, 2016. Fortis confirmed that there were no affiliate transactions related to this Load Settlement Replacement Project.²¹⁸

236. Fortis further explained that not proceeding with this project would put it at risk of non-compliance with AUC Rule 021, and that failure of either the application, operating system, or the hardware components, without robust support from the vendor, could result in Fortis not meeting its regulatory obligations to the market and the AESO, and preventing those retailers that rely on load settlement data from effectively billing customers.²¹⁹

237. In its business case, Fortis identified three potential alternatives. Alternative 1 involved remaining on EVE and PFAM applications. Fortis explained that under this alternative, ongoing support by the vendor would only be offered on a “best-efforts” basis and be limited to the current functionality with no changes being possible, regardless if they were necessary to ensure ongoing compliance with AUC Rule 021. Furthermore, extended support for its underlying Windows Server 2003 was scheduled to end in July 2016. Fortis decided that this alternative was not recommended for implementation as it felt it presented a high risk of exposing the company to circumstances in which it would be unable to meet its core business requirements and regulatory obligations related to load settlement.²²⁰

238. Alternative 2 involved replacing the EVE and PFAM applications with Oracle Utilities. Fortis stated that this alternative only provided approximately nine per cent of load settlement functionality, the remainder of which would have required custom development. Additionally, Fortis was advised by Oracle that Oracle Utilities was undergoing major changes at the time and that this proposed solution would only be supported for two years after completion. As a result, Fortis decided that it would not be prudent to undertake a replacement application that would require heavy customization and reimplementation within a few years.²²¹

239. Alternative 3 was to replace the EVE and PFAM application with applications that integrated with existing technology currently in use at Fortis, such as SAP. Fortis chose this method as it stated it would leverage integration with existing IT infrastructure while positioning it to meet both immediate and future business and regulatory requirements. Furthermore, Fortis explained that the development of this solution could be supported by the internal support team, ensuring that future risk of loss of support would be minimized.²²²

240. In response to an IR from the Commission and one from the CCA, Fortis explained that this project was not forecast in prior years because it had originally planned to upgrade the current load settlement application. As Fortis assessed the ability to upgrade with the vendor, it

²¹⁸ Exhibit 22741-X0003, Appendix A-11, Load Settlement Replacement Project, PDF pages 6-7.

²¹⁹ Exhibit 22741-X0003, Appendix A-11, Load Settlement Replacement Project, PDF page 8.

²²⁰ Exhibit 22741-X0003, Appendix A-11, Load Settlement Replacement Project, PDF page 14.

²²¹ Exhibit 22741-X0003, Appendix A-11, Load Settlement Replacement Project, PDF page 14.

²²² Exhibit 22741-X0003, Appendix A-11, Load Settlement Replacement Project, PDF page 14.

discovered it was not technically possible and had limited project support. Fortis also explained in response to the CCA IR that the intention of discussions with other distribution utilities was to get input regarding vendor options related to load settlement functionality in Alberta, and not intended to result in a common solution. Fortis stated that there has never been any requirement or expectation that the utilities use the same application, and that each utility has different data volumes, and unique software and hardware requirements that have evolved over the years.²²³

241. In an IR, the Commission questioned Fortis on the cost of implementing Alternative 2 (Oracle Utilities), and why SAP and Oracle were the only alternatives examined. Fortis explained that the cost of Oracle Utilities was estimated at \$8.5 million, and did not include the cost for a PFAM interface or the development of reporting and diagnostics improvements. Fortis went on to further explain that this alternative would have also required ongoing incremental operational expenses to maintain, as Fortis does not have the required skill sets in-house, whereas, the SAP solution did not require any additional skill sets to maintain the solution.²²⁴ In response to an IR from the CCA, Fortis stated it did not complete detailed estimates of these development and incremental expenses, but that hardware requirements were estimated to cost an additional \$3 million.²²⁵ Fortis disclosed that an RFP was also sent to Aclara, the legacy provider to determine if they could provide a product that would meet minimum requirements. However, Aclara declined to respond to the RFP.²²⁶

242. At the request of the Commission, Fortis provided the forecast of the project, and variances to this forecast. There was no 2014 forecast, as Fortis did not anticipate requiring an upgrade at the time of filing the 2013 actual and 2014-2015 forecast capital tracker application. The actual capital expenditure of \$0.1 million in 2014 was required for initial high-level requirements gathering. Fortis forecast a potential upgrade of the Load Settlement software for 2015 and 2016 of \$3.4 million and \$3.0 million, respectively. Actuals included an incremental amount of \$1.8 million related to the PFAM replacement and additional hardware requirements. Subsequently, further requirements and related costs were identified, including modifications to address the complexities of the Alberta Settlement System Code and Fortis' service area, the requirement for real-time reporting and diagnostics, the effect of the decline in the Canadian dollar, and increased testing scenarios and transition simulations to ensure there was no disruption to the market upon implementation.²²⁷

243. In response to an IR from the UCA, Fortis stated that purchasing the existing PFAM and EVE application was not a preferred alternative, as its preferred approach is to use vendor-supported software that can be modified to meet the obligations of the Alberta marketplace using a standard configuration. Fortis stated it did not have the internal resources with the ability to undertake the customization of the EVE product had it been purchased. Fortis also stated that since the Load Settlement Replacement Project was not developed in-house, but as part of SAP's IS-U module, it cannot market the program to other utilities to recover some of the cost.²²⁸

²²³ Exhibit 22741-X0072, FAI-CCA-2017JUL21-003.

²²⁴ Exhibit 22741-X0077, FAI-AUC-2017JUL21-006.

²²⁵ Exhibit 22741-X0098, FAI-CCA-2017SEP07-013.

²²⁶ Exhibit 22741-X0077, FAI-AUC-2017JUL21-006.

²²⁷ Exhibit 22741-X0077, FAI-AUC-2017JUL21-007.

²²⁸ Exhibit 22741-X0080, FAI-UCA-2017JUL21-002.

244. In its argument, the CCA expressed concern that this project was "... accelerated unnecessarily. The project has been ongoing since early 2013, but was not deemed important enough to apply for earlier on." It stated that the expenditure in prior years (\$5.6 million in 2015) was large enough to warrant notifying parties that a significant project was being undertaken and to allow parties to discuss timing and need. The CCA referenced the 2014 true-up and 2016-2017 forecast capital tracker application (Proceeding 20497) as an opportunity to do so, which Fortis did not do. As a result, the CCA submitted that since parties did not have the opportunity to question this project and particularly the timing of the project, it should not be afforded capital tracker treatment for 2016, but be deferred to 2017 or 2018.²²⁹

245. In its reply argument, Fortis stated that there was no basis for the CCA's claim that "this project was accelerated unnecessarily," and that no evidence on the record supported that the project was imprudently conceived or executed. Fortis further rejected the CCA's suggestion that the project was not deemed important enough to apply for earlier on, stating it had not conclusively determined that a replacement (as opposed to an upgrade) was required at the time of filing its 2014 true-up and 2016-2017 forecast capital tracker application. Fortis explained that the importance of this distinction is the determining factor of whether the project would satisfy the second capital tracker criterion. Fortis further submitted that this evaluation of replacement was driven by operational requirements, not filing deadlines, and was a prudent approach to capital tracker identification, which should be encouraged. In addition, Fortis submitted that the timing of its application for recovery of the Load Settlement Replacement Project costs is irrelevant to the merits of its request.²³⁰

Commission findings

246. Fortis requested capital tracker treatment for the Load Settlement Replacement Project on an actual basis. Fortis did not previously apply for capital tracker treatment for this project. In its business case, Fortis explained that the Load Settlement Replacement Project was necessary to replace the EVE Load Settlement application and the PFAM solution, both of which would no longer have support in the future. Fortis went on to explain that these applications were necessary in order to meet its business obligations and ensure compliance with its market obligations. The Commission has reviewed the business case, and based on Fortis' assessment of the alternatives, agrees that the Load Settlement Replacement Project was necessary as a reasonable solution to replace EVE and PFAM applications due to the vendor phasing out support for these older load settlement solutions.

247. As set out in Section 7.2 of this decision, Fortis considered three alternatives as solutions to the existing support of its EVE and PFAM applications being phased-out. Of these alternatives, the Commission agrees that Alternative 1 (remaining on existing EVE and PFAM application) is not a reasonable alternative as it would put Fortis at a high risk of exposing the company to circumstances in which it would be unable to meet its core business requirements and regulatory obligations related to load settlement. Between Alternative 2 (Oracle) and Alternative 3 (SAP), the Commission agrees with Fortis that replacement of the EVE and PFAM applications with the SAP supported solution is a more reasonable alternative as it integrates existing technology and knowledge already in use at Fortis.

²²⁹ Exhibit 22741-X0105, CCA argument, paragraphs 6-9.

²³⁰ Exhibit 22741-X0112, Fortis reply argument, paragraphs 5-8.

248. The Commission has reviewed the information on Fortis' RFP process in its business case and IR responses and is satisfied that the process undertaken was reasonable. The Commission is satisfied that the cost of the Load Settlement Project, proposed by winning vendor in a competitive bidding process are reflective of competitive market prices. The Commission finds these costs to be reasonable in the circumstances.

249. The Commission has reviewed the information in Appendix A-11 of the application and IR responses, which contained a reconciliation of the scope of work corresponding with the forecast cost for this project in a given year, as well as a variance explanation of the actual costs. The Commission has also reviewed the actual capital additions for this project, in light of the evidence supporting these costs, and finds the costs, totalling \$13.5 million, to be prudent.

250. Fortis calculated the 2016 actual K factor portion associated with this project to be \$1.6 million. The Commission observes that the K factor revenue requirement calculation for the Load Settlement Replacement Project for 2016 incorporates the 2014, 2015 and 2016 actual capital additions for this project, that were incurred under the I-X mechanism prior to requesting capital tracker treatment. Given the above, the Commission finds that the information provided by Fortis supports a finding that the scope, level, timing and actual costs are prudent as proposed for 2016. Accordingly, the Commission finds that this project satisfies the project assessment requirement of Criterion 1.

8 Accounting test under Criterion 1 – the project must be outside of the normal course of the company's ongoing operations and Commission conclusion on Criterion 1

8.1 Accounting test for the 2016 true-up

251. As explained in Decision 2013-435, the purpose of the accounting test is to determine whether a project or program (depending on the approved level of grouping) proposed for capital tracker treatment is outside the normal course of the company's ongoing operations. This is achieved by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the project or program.²³¹

252. The accounting test is described in Section 7.1 of Decision 20497-D01-2016, at paragraphs 343 to 345 and at paragraph 347.

253. Fortis provided its accounting test calculations, based on the 2016 actual capital additions, in Appendix B to the application.²³² For the 2016 capital tracker true-up, Fortis used the following assumptions in its accounting test:

²³¹ Decision 2013-435, paragraphs 149-150.

²³² Exhibit 22741-X0002, Appendix B – 2016 Capital Tracker Schedules.

Table 12. Fortis' 2016 capital tracker true-up accounting test assumptions

2016 I-X index	0.90%
2016 Q factor	2.45%
WACC* rate embedded in Fortis' going-in rates used in the first component of the accounting test	6.85%
Actual 2016 WACC rate used in the second component of the accounting test	6.07%

*Weighted average cost of capital.

254. Fortis' actual 2016 WACC rate of 6.07 per cent is based on the actual cost of debt of 4.81 per cent, the approved equity thickness of 37 per cent and the approved return on equity (ROE) of 8.3 per cent, as determined in the 2016 GCOC Decision 20622-D01-2016.²³³ Fortis' actual 2016 cost of debt of 4.81 per cent, as reported in its 2016 Rule 005²³⁴ filing, is a blend of Fortis' \$150 million long-term debt issue in 2016 with a coupon rate of 3.34 per cent, and rates for 13 prior debt issuances dating back to 2004.²³⁵ Fortis' 2016 Q factor was approved in Decision 21520-D01-2016.²³⁶

Commission findings

255. The Commission has reviewed the Fortis schedules that make up its accounting test analysis for the purposes of the 2016 capital tracker true-up and finds these schedules to be reasonable and generally consistent with the accounting test methodology approved in Decision 2013-435. It has also verified Fortis' WACC, I-X and Q factor assumptions as shown above in Table 12 and is satisfied that Fortis used correct values.

256. For the reasons above, the Commission finds that Fortis' accounting test model sufficiently demonstrates that all of the actual expenditures for a capital project are, or a portion is, outside the normal course of the company's ongoing operations, as required to satisfy the accounting test component of Criterion 1. The Commission's determinations on whether Fortis' programs or projects proposed for capital tracker treatment in 2016, on an actual basis, satisfy both the accounting test and the project assessment components of Criterion 1, are set out in Section 8.2 below.

8.2 Commission's conclusions on Criterion 1

257. In Section 7 of this decision, and 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 2016 true-up, subject to some adjustments and Commission directions for the AESO Contributions Program. Because of these adjustments, the Commission cannot make a determination in this proceeding as to whether all of Fortis' programs or projects included in the 2016 true-up satisfy the project assessment requirement of Criterion 1.

258. For the same reason, the Commission cannot make a determination in this proceeding as to whether all of Fortis' programs or projects included in the 2016 true-up satisfy the accounting test requirement of Criterion 1. The Commission directs Fortis, in its compliance filing, to revise

²³³ Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.

²³⁴ Rule 005: *Annual Reporting Requirement of Financial and Operational Results*.

²³⁵ Fortis' 2016 Rule 005 filing, schedules 2 and 2.3.

²³⁶ Decision 21520-D01-2016, paragraph 40.

its accounting test for 2016, based on directions as set out in the previous sections of this decision, and reassess whether the capital tracker programs or projects included in the 2016 true-up satisfy the accounting test requirement of Criterion 1.

9 Criterion 2 – ordinarily the project must be for replacement of existing capital assets or undertaking the project must be required by an external party

259. The Commission clarified in Decision 2013-435 that in addition to asset replacement projects and projects required by an external party, a growth-related project will, in principle, satisfy the requirements of Criterion 2 where it can be demonstrated that customer contributions, together with incremental revenues allocated to the project on some reasonable basis, when added to the revenue provided under the I-X mechanism, are insufficient to offset the revenue requirement associated with the project in a PBR year.²³⁷ Certain projects proposed for capital tracker treatment that do not fall into any of the growth-related, asset replacement or external party related categories may also satisfy Criterion 2 in certain circumstances, as discussed in Section 3.2.4 of Decision 2013-435.²³⁸

260. As set out in Section 4 of this decision, for the purposes of the true-up of the 2016 capital tracker programs or projects for which the Commission undertook and approved the assessment against the Criterion 2 requirements in Decision 3220-D01-2015 or Decision 20497-D01-2016, there is also no need to undertake a reassessment of the project or program against the Criterion 2 requirements unless the driver for the project or program has changed. In the application, Fortis confirmed that “the drivers for each of FortisAlberta’s previously approved Programs or Projects have not changed.”²³⁹ Regarding the Load Settlement Replacement Project not previously approved, Fortis explained that the primary driver for the project was asset replacement.²⁴⁰

261. Fortis provided a table setting out the driver for each of the programs or projects included in the 2016 true-up:²⁴¹

²³⁷ Decision 2013-435, paragraph 309.

²³⁸ Decision 2013-435, paragraph 314.

²³⁹ Exhibit 22741-X0038, application, paragraph 32.

²⁴⁰ Exhibit 22741-X0038, application, paragraph 92.

²⁴¹ Exhibit 22741-X0038, application, paragraph 31, Table 2.

Table 13. Applied-for 2016 capital tracker programs or projects and Criterion 2 requirements

Program/Project name	Criterion 2 project type
Customer Growth Program*	Growth
AESO Contributions Program	Externally driven
Substation Associated Upgrades Program	Externally driven
Distribution Line Moves Program	Externally driven
Urgent Repairs Program, WPF Program, and CSAR Program	Asset replacement/life extension
Distribution Capacity Increases Program	Growth
Pole Management Program	Asset replacement/life extension
Cable Management Program	Asset replacement/life extension
DCC/SCADA Project	Other (safety/reliability)
Load Settlement Replacement Project	Asset replacement

Commission findings

262. Based on Fortis' evidence, the Commission agrees that the Load Settlement Replacement Project satisfies the requirements of Criterion 2 because it is an asset replacement project.

263. Consistent with the determinations in Section 4 of this decision, because the driver or drivers (e.g., replacement of existing assets, external party, growth) for each of the remaining programs or projects included in Fortis' 2016 capital tracker true-up have not changed since the Commission undertook and approved the proposed capital tracker projects and programs against the Criterion 2 requirements in Decision 3220-D01-2015, and in Decision 20497-D01-2016, there is no need to undertake a reassessment of these programs or projects against the Criterion 2 requirements.

264. The Commission directs Fortis, in subsequent capital tracker true-up applications, to confirm whether the driver for any of the previously-approved forecast programs or projects has changed, and if so, to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2, as previously directed at paragraph 532 of Decision 3220-D01-2015.

10 Criterion 3 – the project must have a material effect on the company's finances

265. Section 8 of this decision addresses Fortis' accounting test, which determines whether all of the actual expenditures for a capital project are, or if a portion is, outside the normal course of the company's ongoing operations, as required to satisfy Criterion 1. This is established by demonstrating that the associated revenue provided under the I-X mechanism would not be sufficient to recover the entire revenue requirement associated with the prudent capital expenditures for the program or project proposed for capital tracker treatment.

266. In accordance with the Commission's determinations in Decision 2013-435, the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test, is then assessed against the two-tiered materiality test under Criterion 3. The first tier of the materiality threshold, a "four basis point threshold," is applied at a project level, grouped in the manner approved by the Commission. The second tier of the materiality threshold, a "40 basis

point threshold,” is applied to the aggregate revenue requirement proposed to be recovered by way of all capital trackers.²⁴²

267. In Decision 2013-435, the Commission calculated the four basis point threshold and the 40 basis point threshold based on the dollar value of Fortis’ ROE in 2012. The Commission indicated that in subsequent PBR years, the four basis point threshold and the 40 basis point threshold are to be calculated by escalating the respective 2012 amounts by I-X.²⁴³

268. Further, in Decision 3220-D01-2015, the Commission determined that the calculation of the first and second tier materiality thresholds for purposes of the capital tracker true-up application for a given year should be based on the approved I-X index for that year, and directed Fortis to follow this approach in future capital tracker true-up applications.²⁴⁴

269. For the 2016 capital tracker true-up, Fortis calculated the 2016 four basis point threshold of \$0.349 million and the 40 basis point threshold of \$3.490 million,²⁴⁵ calculated by escalating the respective 2012 amounts by the approved 2013, 2014, 2015, and 2016 I-X index values. Fortis then assessed each of the capital tracker projects included in the 2016 true-up against the two-tiered materiality test, in accordance with the requirements set out in Decision 2013-435.²⁴⁶ Fortis indicated that each 2016 capital tracker true-up project or program satisfies Criterion 3. No party took issue with Fortis’ calculation of its materiality threshold under Criterion 3.

Commission findings

270. For its 2016 true-up calculations, Fortis used the first and second tier materiality thresholds approved in Decision 20351-D01-2015, based on the approved 2013, 2014, 2015 and 2016 I-X index values.

271. The Commission has reviewed Fortis’ calculations, and is generally satisfied that Fortis has interpreted and applied the Criterion 3 two-tiered materiality test properly for the purposes of its 2016 capital tracker true-up, based on the projects and assumptions included in the application. However, as discussed earlier in this section, the two-tiered materiality test under Criterion 3 is applied to the portion of the revenue requirement for a project or program proposed for capital tracker treatment that is not funded under the I-X mechanism in a PBR year, calculated as part of the accounting test. In Section 8.2, the Commission has directed Fortis, in its compliance filing to this decision, to revise its accounting test. Accordingly, because Fortis’ accounting test for 2016 needs to be revised, the Commission cannot determine in this proceeding whether any of Fortis’ programs or projects included in the 2016 true-up satisfy the materiality test requirement of Criterion 3.

272. Given these findings, the Commission directs Fortis, in its compliance filing to this decision, to reassess whether its programs or projects included in the 2016 true-up, satisfy the two-tiered materiality test requirement of Criterion 3. For this reassessment, Fortis will use the approved 2016 threshold amounts.

²⁴² Decision 2013-435, paragraphs 382-385.

²⁴³ Decision 2013-435, paragraphs 378 and 384.

²⁴⁴ Decision 3220-D01-2015, paragraph 544.

²⁴⁵ Exhibit 22741-X0002, Appendix B 2016 Capital Tracker Schedules, schedules 1 and 14.

²⁴⁶ Exhibit 21538-X001, 2015 Capital Tracker Schedules, Schedule 12.

11 Fortis' compliance with Commission directions

273. In Decision 20497-D01-2016 and Decision 21538-D01-2017, the Commission issued a number of directions to Fortis that were applicable to its future capital tracker applications. Fortis indicated it has addressed, in the application, the directions that affected the projects included in the 2016 capital tracker true-up, as well as the supplemental directions related to the Pole Management Program and cost of debt.²⁴⁷

Commission findings

274. In previous sections of this decision, the Commission addressed Fortis' compliance with certain directions from the previous capital tracker decisions. Specifically, in Section 6, the Commission determined that Fortis has complied with the direction from Decision 20497-D01-2016, to group the Urgent Repairs, WPF and CSAR programs together. In Section 7.1.2, the Commission discussed Fortis' compliance with directions relating to the AESO Contributions Program. In Section 7.1.6, the Commission found that Fortis has complied with the Commission directions pertaining to the incremental cost of conductor upgrades within the Pole Replacement Program. In Section 7.1.8, the Commission determined that Fortis has complied with the Commission direction to provide a reconciliation of the scope of work corresponding with the forecast cost for the DCC/SCADA Project in a given year at the same time as it provides a variance explanation on the actual costs as well as a breakdown of units and unit costs for the project components.

275. The Commission has reviewed Fortis' responses to the directions of the Commission not specifically addressed in the previous sections of this decision and is generally satisfied that Fortis has complied with these directions in the application. The Commission directs Fortis to continue to provide in the 2017 capital tracker true-up application the information requested in the applicable directions from prior capital tracker decisions.

12 2016 K factor true-up

276. In Decision 21520-D01-2016, the Commission approved the 2016 K factor of \$70.9 million to be recovered from Fortis' customers on a forecast basis.²⁴⁸ As part of the 2016 capital tracker true-up, Fortis calculated its actual 2016 K factor to be \$60.1 million,²⁴⁹ resulting in a proposed 2016 K factor true-up adjustment of \$10.8 million to be refunded to customers, as shown in Table 1 from Section 5 of this decision.

277. Fortis proposed to incorporate the 2016 K factor true-up, with associated carrying charges, in its 2018 annual rates filing.²⁵⁰

Commission findings

278. The Commission has reviewed Fortis' calculations and finds that Fortis' methodology to determine the 2016 K factor true-up amount is generally consistent with the requirements set out

²⁴⁷ Exhibit 22741-X0038, application, paragraphs 13-38.

²⁴⁸ Decision 21520-D01-2016, paragraph 50.

²⁴⁹ Exhibit 22741-X0038, application, paragraph 8, Table 1.

²⁵⁰ Exhibit 22741-X0038, application, paragraph 99.

in decisions 2012-237 and 2013-435. However, as set out in the previous sections of this decision, while the Commission confirmed the prudence of actual capital additions associated with the majority of Fortis' programs or projects included in the 2016 capital tracker true-up, the Commission has directed some adjustments related to the AESO Contributions Program that may result in changes to the 2016 actual K factor amount. As such, the Commission will consider the 2016 K factor true-up further, in a compliance filing to this decision.

13 Order

279. It is hereby ordered that:

- (1) FortisAlberta Inc. is directed to file a compliance filing application in accordance with the directions contained within this decision on or before February 28, 2018.

Dated on January 11, 2018.

Alberta Utilities Commission

(original signed by)

Anne Michaud
Panel Chair

(original signed by)

Henry van Egteren
Commission Member

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
FortisAlberta Inc. (Fortis or FAI)
Consumers' Coalition of Alberta (CCA)
AltaLink Management Ltd.
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP

<p>Alberta Utilities Commission</p> <p>Commission Panel</p> <ul style="list-style-type: none"> A. Michaud, Panel Chair H. van Egteren, Commission Member N. Jamieson, Commission Member <p>Commission Staff</p> <ul style="list-style-type: none"> D. Larder (Commission counsel) S. Sharma P. Genderka A. Spurrell J. Halls
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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 determinations on FortisAlberta Inc.'s (Fortis or FAI) 2016 capital tracker true-up application. For the reasons outlined herein, the Commission has determined that:
 - Fortis is directed to explain its grouping of the Load Settlement Replacement Project, not previously approved for capital tracker treatment. Fortis' proposed grouping of the remaining projects into programs is reasonable.
 - The need for the capital tracker programs or projects included in the 2016 true-up is confirmed.
 - The actual scope, level, timing and costs of each of the programs or projects included in the 2016 true-up were prudent, subject to the adjustments and directions by the Commission applicable to the Alberta Electric System Operator (AESO) Contributions Program.
 - The previously approved capital tracker projects or programs included in the 2016 true-up continue to meet the requirements of Criterion 2.
 - Because of the adjustments and directions by the Commission applicable to the AESO Contributions Program, a reassessment of whether the capital tracker programs or projects included in the 2016 true-up satisfy the two-tiered materiality test requirement of Criterion 3 is required.

..... Paragraph 1
2. Based on the above determinations, the Commission could not assess whether the programs or projects included in the 2016 true-up satisfy the accounting test requirement of Criterion 1 and materiality requirement under Criterion 3 and, accordingly, directs Fortis to revise its accounting test for 2016 capital tracker true-up in the compliance filing to this decision. Paragraph 2
3. In light of the above, the Commission cannot, in this decision, make a determination on the reasonableness of grouping the Load Settlement Replacement Project as a separate capital tracker project. The Commission directs Fortis, in the compliance filing to this decision, to explain the activities that justify the historical capital additions (from 2005 to 2012) included in the accounting test for the Load Settlement Replacement Project. The Commission further directs Fortis to identify all projects in its accounting test that include historical capital additions associated with the old EVE and/or PFAM applications. Finally, Fortis is directed to explain why it did not group all of its expenditures related to load-settlement together under the Load Settlement Replacement Project. Paragraph 25
4. The Commission evaluated the Fortis business cases, engineering studies, cost-related information, and related evidence and argument against each of the project assessment minimum filing requirements for capital tracker applications set out in Decision 3558-D01-2015. In this decision, the Commission has commented only on those aspects of the minimum filing requirements that it considered were not addressed sufficiently in Fortis'

- evidence or were otherwise raised as an issue in the proceeding. In its 2017 true-up capital tracker application, Fortis is directed to continue to provide similar information with respect to each of the minimum filing requirements, including updated business cases, engineering studies and cost-related information, including actual costs by cost category and unit costs, in sufficient detail to allow an evaluation of the prudence of its incurred costs. Paragraph 28
5. Having regard for the above, and having regard for the Commission’s finding in Section 7.1.2.1 that the projects in Attachment FAI-AUC-2017SEP07-002.01 are not final by virtue of Fortis’ structural reliance on future refunds to be triggered by future DTS increases, the Commission directs Fortis to recalculate AESO contributions for all projects in Attachment FAI-AUC-2017SEP07-002.01 to reflect the AESO contribution refund pursuant to subsection 2 of Section 9 of the ISO tariff that Fortis would be eligible for if it immediately increased DTS to the amount of the maximum capacity of the project. For this purpose, Fortis is directed to use the maximum DTS level indicated for each project in Fortis’ response to FAI-AUC-2017SEP07-003, and to calculate the effect of such DTS contract capacity changes to determine a revised prior-year true-up for the year 2016. Fortis is directed to file this information in a compliance filing pursuant to this decision. Paragraph 80
 6. Fortis is directed to ensure that the re-accrual of AFUDC and the disallowance of the risk reward mechanism costs is reflected in the examination of Fortis’ AESO contribution amounts on projects completed by December 31, 2016, to be considered as part of Fortis’ 2017 capital tracker true-up application. Paragraph 84
 7. The Commission directs that the prudence review take place as part of Fortis’ 2017 capital tracker true-up proceeding, and include consideration of all projects identified in Fortis’ response to FAI-AUC-2017SEP07-002. Paragraph 96
 8. In fulfilling the direction to restate deemed AESO contribution amounts for the projects in Attachment FAI-AUC-2017SEP07-002.01, Fortis may have to request that the AESO review contribution amounts determined by the AESO in accordance with subsection 2(2) of Section 9 of the AESO’s tariff. The Commission directs Fortis to provide a report at the time of its compliance filing showing, for each project shown on Attachment FAI-AUC-2017-SEP07-002.01, whether Fortis intends to seek a refund, the date by which the refund is expected to be provided, and the amount of the contribution refund in each case. Paragraph 129
 9. Fortis is directed to provide its view and potential recommendations on this matter as part of its compliance filing pursuant to this decision. Paragraph 138
 10. The Commission has reviewed the information in Appendix A-9 of the application, which provides a reconciliation of the scope of work corresponding with the forecast cost for this project in a given year, a variance explanation on the actual costs, and a breakdown of units and unit costs for the project components. The Commission is satisfied that this information complies with the direction provided in Decision 20407-D01-2016 and directs Fortis to continue to file this information in future capital tracker true-up applications. Paragraph 227
 11. For the same reason, the Commission cannot make a determination in this proceeding as to whether all of Fortis’ programs or projects included in the 2016 true-up satisfy the accounting test requirement of Criterion 1. The Commission directs Fortis, in its compliance filing, to revise its accounting test for 2016, based on directions as set out in

- the previous sections of this decision, and reassess whether the capital tracker programs or projects included in the 2016 true-up satisfy the accounting test requirement of Criterion 1. Paragraph 258
12. The Commission directs Fortis, in subsequent capital tracker true-up applications, to confirm whether the driver for any of the previously-approved forecast programs or projects has changed, and if so, to identify such projects and programs and to provide evidentiary support that each project or program continues to satisfy the requirements of Criterion 2, as previously directed at paragraph 532 of Decision 3220-D01-2015. Paragraph 264
13. Given these findings, the Commission directs Fortis, in its compliance filing to this decision, to reassess whether its programs or projects included in the 2016 true-up, satisfy the two-tiered materiality test requirement of Criterion 3. For this reassessment, Fortis will use the approved 2016 threshold amounts. Paragraph 272
14. The Commission has reviewed Fortis' responses to the directions of the Commission not specifically addressed in the previous sections of this decision and is generally satisfied that Fortis has complied with these directions in the application. The Commission directs Fortis to continue to provide in the 2017 capital tracker true-up application the information requested in the applicable directions from prior capital tracker decisions. Paragraph 275
15. It is hereby ordered that:
- (1) FortisAlberta Inc. is directed to file a compliance filing application in accordance with the directions contained within this decision on or before February 28, 2018. Paragraph 279

Appendix 3 – Fortis’ prior capital tracker-related decisions

([return to text](#))

Commission approvals and directions	Decision	Decision reference
Because the 2013 capital tracker proceeding leading to Decision 2013-435 had not yet been completed at the time the Commission established 2013 interim PBR rates in Decision 2013-072, the Commission approved, on an interim basis, a 2013 capital tracker placeholder (K factor) for Fortis, equal to 60 per cent of the applied-for K factor amount. Accordingly, Fortis was directed to include in its 2013 PBR rates, a K factor placeholder of \$14.58 million on an interim basis.	Decision 2013-072 ¹	Table 1, paragraph 41
The Commission declined to approve Fortis’ 2013 capital tracker forecast on the basis that it did not approve Fortis’ K factor calculation methodology, and directed Fortis to refile its 2013 actual capital expenditures in accordance with the directions set out in the decision.	Decision 2013-435 ²	Paragraphs 1067-1069
The Commission declined to approve Fortis’ 2013 actual and 2014 and 2015 forecast capital expenditures on the basis that further revisions to Fortis’ capitalized overhead amounts and the accounting test were required, and directed Fortis to file a compliance filing to the decision.	Decision 3220-D01-2015 ³	Paragraphs 587-589
The Commission approved the 2013 K factor amount on an actual basis and the 2014 and 2015 K factor amounts on a forecast basis.	Decision 20351-D01-2015 ⁴	Paragraph 95
The Commission approved the inclusion of the uncollected 2013-2015 K factor amounts and associated carrying costs in 2016 PBR rates. The Commission also approved a placeholder of 90 per cent of the applied for K factor amounts for 2016 to be included in 2016 PBR rates.	Decision 20818-D01-2015 ⁵	Paragraphs 61-62
The Commission confirmed the prudence of actual capital additions associated with 2014 expenditures but did not approve a final 2014 K factor true-up amount of 2016-2017 forecast amounts on the basis that proposed changes to the depreciation parameters in the application were not approved.	Decision 20497-D01-2016 ⁶	Paragraph 436

¹ Decision 2013-072: 2012: Performance-Based Regulation Compliance Filings, AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Proceeding 2130, Application 1608826-1, March 4, 2013.

² Decision 2013-435: Distribution Performance-Based Regulation 2013 Capital Tracker Applications, Proceeding 2131, Application 1608827-1, December 6, 2013.

³ Decision 3220-D01-2015: FortisAlberta Inc., 2013-2015 PBR Capital Tracker Application, Proceeding 3220, March 5, 2015.

⁴ Decision 20351-D01-2015: FortisAlberta Inc., 2013-2015 Capital Tracker Compliance Filing, Proceeding 20351, September 23, 2015.

⁵ Decision 20818-D01-2015: FortisAlberta Inc., 2016 Annual PBR Rate Adjustment Filing, Proceeding 20818, December 17, 2015.

⁶ Decision 20497-D01-2016: FortisAlberta Inc., 2014 PBR Capital Tracker True-Up and 2016-2017 PBR Capital Tracker Forecast, Proceeding 201497, February 20, 2016.

Commission approvals and directions	Decision	Decision reference
The Commission approved additional actual K factor revenue for 2013, the actual 2014 K factor revenue, and the 2016 and 2017 forecast K factor revenues.	Decision 21520-D01-2016 ⁷	Paragraph 53
The Commission approved a K factor placeholder comprising 100 per cent of the approved 2017 forecast K factor amount and the true-up of the 2013-2016 K factor amounts.	Decision 21980-D01-2016 ⁸	Paragraph 53
The Commission provided 15 specific direction regarding future applications and directed Fortis to file a compliance filing application on or before February 27, 2017.	Decision 21538-D01-2017 ⁹	Appendix 2
The Commission approved the 2015 actual K factor of \$47.9 million and the 2015 K factor adjustment refund amount of \$14.3 million, to be included as part of a proceeding to establish Fortis' 2018 PBR rates.	Decision 22442-D01-2017 ¹⁰	Paragraph 26

⁷ Decision 21520-D01-2016: FortisAlberta Inc., 2014 True-Up and 2016-2017 Forecast PBR Capital Tracker Compliance Filing, Proceeding 21520, September 15, 2016.

⁸ Decision 21980-D01-2016: FortisAlberta Inc., 2017 Annual PBR Rate Adjustment Filing, Proceeding 20818, December 23, 2016.

⁹ Decision 21538-D01-2017: FortisAlberta Inc., 2015 PBR Capital Tracker True-Up, Proceeding 21538, January 26, 2017.

¹⁰ Decision 22442-D01-2017: FortisAlberta Inc., Compliance Filing to Decision 21538-D01-2017 2015 Capital Tracker True-Up, Proceeding 22442, May 18, 2017.