



EPCOR Distribution & Transmission Inc.

**2019 Customer Specific Distribution Access Service Rate
for a New Customer (CS49)**

August 21, 2019

Alberta Utilities Commission

Decision 24492-D01-2019

EPCOR Distribution & Transmission Inc.

2019 Customer Specific Distribution Access Service Rate for a New Customer (CS49)

Proceeding 24492

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1 Decision

1. In this decision, the Alberta Utilities Commission approves EPCOR Distribution & Transmission Inc.'s (EPCOR or EDTI) customer specific (CS) distribution access service (DAS) rate for a new customer (CS49) of \$844.14 per day, effective September 1, 2019. This rate is subject to a true-up based on the actual in-service date and 2019 weighted average cost of capital (WACC).

2 Introduction

2. On April 9, 2019, EPCOR filed an application with the Commission requesting approval for a CS DAS rate for a new customer. EPCOR requested approval for the CS49 rate of \$826.40 per day, with an effective date of September 1, 2019.

3. The Commission issued notice of the application on April 11, 2019, and invited parties who wished to comment on the application to provide their statements of intent to participate (SIPs) on or before April 25, 2019.

4. The Commission received a statement of intent to participate (SIP) from the Consumers' Coalition of Alberta (CCA) on April 16, 2019. The CCA stated that it would like the opportunity to test the application by way of written information requests (IRs) before commenting on whether it objects to the application.

5. On May 3, 2019, EPCOR filed a letter stating that the design of the distribution facilities proposed to provide service to a new customer (CS49) may require changes. EPCOR stated that it will advise the Commission regarding timing of filing an update to its application as soon as it determines the necessity and scope of the design change to its facilities.

6. On May 7, 2019, the Commission suspended Proceeding 24492 until such time when EPCOR advised the Commission on the required changes to the distribution facility and the corresponding updates to its application.

7. On June 14, 2019, EPCOR updated its application to include a revised CS rate calculation to reflect a change to the quotation for interchange service from FortisAlberta Inc. The change involves an increase to the peak demand to align with the peak demand required by customer CS49. EPCOR requested approval for the CS49 rate of \$844.14 per day, with an effective date of September 1, 2019.

8. The Commission determined that the application would be considered by way of a basic written process, as outlined in Commission Bulletin 2015-09,¹ and set out a process and

¹ Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.

schedule. The Commission and the CCA issued information requests (IRs) to EPCOR on July 9, 2019, to which EPCOR responded on July 23, 2019.

9. The Commission received submissions on further process from EPCOR and the CCA on July 26, 2019. EPCOR submitted that no further process steps were required and requested that the Commission proceed with issuing a decision approving the application as soon as possible. In its submission, the CCA indicated that it was prepared to proceed with argument and reply. The CCA filed a further submission on August 1, 2019, indicating that it did not object to approval of the application as requested and that no further process was required with respect to the application. The CCA did, however, point to EPCOR's response to certain subparts of an IR filed in the proceeding and submitted that "it would be efficient, from a process point of view, to request EDTI to address questions EDTI-CCA-2019JUL09-002, parts (e) through (i) as part of EDTI's next Phase II application, perhaps, as a response to directions arising from this proceeding."²

10. The Commission considers the record of this proceeding to have closed on July 26, 2019.

11. In reaching the determinations set out in this decision, the Commission has considered all relevant materials comprising the record of this proceeding, as well as related information and decisions. 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 this matter.

3 Background

12. The CS rate class is composed of customers with an annual energy demand over 5,000 kilovolt amperes (kVA). New customer CS49 rate meets this criterion.

13. EPCOR calculates its CS DAS rates based on the cost-of-service principles and methodology approved in Decision 2012-155.³ Under this methodology, depreciation, return, and operating, maintenance and general (OM&G) costs are allocated to the customer based on its use of EPCOR's assets.

14. In Decision 21700-D01-2016, the Commission directed EPCOR to include the following information in subsequent CS rate applications.⁴

- The CS rate calculation and supporting schedules ...
- The supporting detailed calculations for the CS rate showing, for each asset used to supply electric service to the customer, the following information, if applicable: asset type, asset sub type, install year, status, average life, quantity, unit cost, total assets costs, customer usage, duct line/manhole allocation, customer asset cost,

² Exhibit 24492-X0021.

³ Decision 2012-155: EPCOR Distribution & Transmission Inc., Customer Specific Distribution Access Service Rate for New Customer, Proceeding 1731, Application 1608176-1, June 8, 2012.

⁴ Decision 21700-D01-2016: EPCOR Distribution & Transmission Inc., 2016 Customer Specific Distribution Access Service Rates (CS43 and CS44) for a New Customer, Proceeding 21700, August 30, 2016, paragraph 16.

age, depreciation factor, customer depreciation, customer opening net book value (NBV), customer closing NBV, customer return, total depreciation, total opening NBV, total closing NBV, total return, asset group and asset class ID....

- Information on whether any assets were required to provide standby service to the customer under the CS rate and, if standby service was required for the customer, EPCOR must provide an adequate explanation of how it determined what assets were required by each of EPCOR and the customer in the provision of standby service.

4 Calculation of the 2019 DAS CS49 rate

15. In its application, EPCOR explained that it would be unable to meet the required capacity of the new customer in its service territory. EPCOR filed a system access request with the Alberta Electric System Operator (AESO), and this process identified that the customer's need could be met through the East Edmonton 38S substation which is part of FortisAlberta's service territory. FortisAlberta provided to EPCOR details of the requirements to provide interchange service⁵ to meet the customer's needs.

16. In Appendix A, EPCOR provided details of the costs associated with providing service to customer CS49. These include the specific incremental equipment and installation activities to be provided by EPCOR,⁶ and the costs related to the Interchange Service provided by FortisAlberta, which include a customer contribution⁷ and a daily interchange cost.⁸

17. To calculate the CS49 rate, EPCOR indicated that it used the direct calculation methodology to determine the capital cost component of the assets in service in the customer's rates,⁹ including EPCOR's customer contribution to FortisAlberta. This is the same methodology it used to calculate the rate for its previously approved CS customer, designated as CS46, approved in Decision 23842-D01-2018,¹⁰ and is the same method used in its last approved Phase II application.¹¹

4.1 Critical Urban Load Group

18. In its application, EPCOR explained that this customer is not part of EPCOR's critical urban load group and therefore does not require standby service.

4.2 Weighted average cost of capital

19. Calculating the revenue requirement associated with the capital-related costs included in the CS rate requires the use of a WACC, which is composed of the return on equity (ROE), embedded cost of debt and equity thickness. EPCOR used a WACC of 6.25 per cent in

⁵ Exhibit 24492-X0004.02, Appendix B - Interchange Service Redacted.

⁶ Exhibit 24492-X0003.01, Appendix A - CS49 COS Rate Calculation, Schedule 1.1.

⁷ Exhibit 24492-X0003.01, Appendix A - CS49 COS Rate Calculation, Schedule 1.2.

⁸ Exhibit 24492-X0003.01, Appendix A - CS49 COS Rate Calculation, Schedule 2.0.

⁹ Exhibit 24492-X0002.01, paragraph 17.

¹⁰ Decision 23842-D01-2018: EPCOR Distribution & Transmission Inc., 2018 Customer Specific Distribution Access Service for a New Customer (CS46), Proceeding 23842, September 21, 2018.

¹¹ Decision 2011-490: EPCOR Distribution & Transmission Inc., 2010-2011 Phase II Distribution Tariff Refiling, Proceeding 1484, December 14, 2011.

calculating the new CS rate. This corresponds to the same WACC that was approved on an interim basis in Decision 23355-D01-2018 (Errata) and the WACC that EPCOR utilized in its previously approved CS rate, designated as CS46, approved in Decision 23842-D01-2018.

4.3 Allocated operating, maintenance and general costs

20. In its application, EPCOR explained that it allocated OM&G costs associated with the incremental and existing assets using a ratio of 1.851 per dollar of capital costs. EPCOR calculated the ratio between total OM&G costs to capital costs based on the amounts filed in its 2010 to 2011 Phase II compliance filing.¹² The Commission accepted this methodology in Decision 2012-155.¹³

4.4 Other matters

21. The Commission asked a number of IRs of EPCOR to more fully understand the proposed CS49 rate and the terms offered to the customer. Through this process EPCOR provided explanations regarding the specifics of the agreement between EPCOR and customer CS49.

- (a) EPCOR reviewed and validated FortisAlberta's service design as the most effective way to provide service¹⁴ and validated the customer contribution calculation. EPCOR confirmed use of the East Edmonton 38S substation was the least cost alternative¹⁵ for providing service to customer CS49.
- (b) Transmission costs will be flowed through to the customer via a system access service rate to recover charges EPCOR would receive from FortisAlberta for transmission costs. These costs were not included in the application.
- (c) EPCOR and the customer signed a Construction Commitment Agreement.¹⁶ In the event of service cancellation the customer would be responsible for construction and demobilization costs. EPCOR has a letter of credit from the customer that would fully cover EPCOR's costs including any amount owing to FortisAlberta related to its investment.
- (d) EPCOR explained that the daily interchange cost, based on FortisAlberta's Rate 63, a part of the interchange service, is subject to peak demand.¹⁷ EPCOR considers it reasonable to review the actual demand of the customer after approximately one year of service and, if required, update the peak demand forecast and reflect this in the daily interchange cost included in the CS49 rate.

¹² Proceeding 23842, Exhibit 23842-X0010, EDTI-AUC-2018AUG29-001 Attachment 1.

¹³ Decision 2012-155: EPCOR Distribution & Transmission Inc., Customer Specific Distribution Access Service Rate for New Customer, Proceeding 1731, June 8, 2012, paragraph 31.

¹⁴ Exhibit 24492-X0016, EDTI-AUC-2019JUL09-001-004, PDF page 5.

¹⁵ Exhibit 24492-X0016, EDTI-AUC-2019JUL09-001-004, PDF page 4.

¹⁶ Exhibit 24492-X0016, EDTI-AUC-2019JUL09-001-004, PDF page 10.

¹⁷ Exhibit 24492-X0016, EDTI-AUC-2019JUL09-001-004, PDF page 6.

5 Commission findings

22. The methodology used by EPCOR to calculate the CS49 rate is the same cost-of-service methodology that was used by EPCOR in its calculation of other CS rates, previously approved in Decision 2012-155 and most recently confirmed in Decision 22603-D01-2017¹⁸ and Decision 23842-D01-2018. The Commission has reviewed EPCOR's proposed calculations of the CS49 rate and finds them to be reasonable and consistent with the previously approved methodology.

23. EPCOR proposed to use a WACC of 6.25 per cent, consistent with Decision 23355-D01-2018 (Errata)¹⁹ and previously approved CS customer, designated as CS46, in Decision 23842-D01-2018. The Commission finds the use of a WACC of 6.25 per cent to be a reasonable placeholder. The Commission directs EPCOR to true up the CS49 rate to reflect the actual 2019 WACC.

24. Furthermore, and consistent with past practices, the Commission directs EPCOR to true up any differences if the actual in-service date differs from September 1, 2019, which is the effective date contemplated in the application. For purposes of regulatory efficiency, EPCOR is directed to true up the CS49 rate to reflect both the 2019 actual WACC and the actual in-service date at the same time, as part of its 2021 annual performance-based regulation (PBR) rate adjustment application to be filed in September 2020.

25. Consistent with Decision 23842-D01-2018, the Commission reiterates its direction to EPCOR to examine the relevance of using capital costs to allocate OM&G costs in its next Phase II application. EPCOR is directed to consider whether the use of a static OM&G allocation ratio that is unchanged during the PBR term results in the efficient and fair allocation of OM&G costs across all of EPCOR's customers or if there is a need for another mechanism to efficiently and fairly address material differences between the incremental OM&G costs incurred by EPCOR as new customers are added to (or removed from) the CS rate class. If EPCOR determines that capital costs remain relevant as an allocator, EPCOR is directed to update the ratio as required.

26. Given the information provided in the application and EPCOR's responses to IRs, the CS49 rate of \$844.14 per day is approved for 2019, subject to a true-up to reflect the 2019 actual WACC and in-service date.

27. In granting approval of the application for the proposed CS49 rate, the Commission expressly does not authorize the recovery by EPCOR of any amount payable by the rate CS49 customer from other EPCOR customers in the event of default or bankruptcy of the rate CS49 customer. The Commission directs EPCOR to bring to its attention any such unpaid amount, at which time the regulatory treatment of the outstanding amounts will be determined.

28. Following the establishment of the CS49 rate based on cost-of-service principles, the PBR methodology requires the calculation of a base rate for determining the PBR rates for

¹⁸ Decision 22603-D01-2017: EPCOR Distribution & Transmission Inc., 2017 Customer Specific Distribution Access Service Rate (CS45) for a New Customer Proceeding 22603, June 23, 2017.

¹⁹ Decision 23355-D01-2018 (Errata): April 1, 2018 Interim Distribution Rates for each of AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., ENMAX Power Corporation, EPCOR Distribution & Transmission Inc., and FortisAlberta Inc., Proceeding 23355, March 29, 2018.

subsequent years. For 2020, the Commission expects that the 2020 CS49 rate under PBR will be calculated using the same method as for other PBR rates, involving the calculation of a base rate and application of the I-X index and any rate adjustments approved as part of the 2018 to 2022 PBR plan for EPCOR.²⁰

29. The Commission will not direct EPCOR to provide a response to the CCA's IR in EPCOR's next Phase II application. The CCA is free to ask its IRs in EPCOR's next Phase II application if it sees fit to do so at that time.

6 Order

30. It is hereby ordered that:

- (1) EPCOR Distribution & Transmission Inc.'s new customer specific distribution access service CS49 rate of \$844.14 per day is approved, effective September 1, 2019, on an interim basis.
- (2) EPCOR Distribution & Transmission Inc. shall true up any differences to reflect the actual 2019 weighted average cost of capital and in-service start date as part of its 2021 annual performance-based regulation rate adjustment filing.

Dated on August 21, 2019.

Alberta Utilities Commission

(original signed by)

Tracee Collins
Commission Member

²⁰ Decision 22394-D01-2018: Rebasings for the 2018-2022 PBR Plans for Alberta Electric and Gas Distribution Utilities, Proceeding 22394, February 5, 2018.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
EPCOR Distribution & Transmission Inc. (EPCOR or EDTI)
Consumers' Coalition of Alberta (CCA)

Alberta Utilities Commission
Commission panel T. Collins, Commission Member
Commission staff S. Sajnovics (Commission counsel) E. Deryabina M. MacDonald

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. EPCOR proposed to use a WACC of 6.25 per cent, consistent with Decision 23355-D01-2018 (Errata) and previously approved CS customer, designated as CS46, in Decision 23842-D01-2018. The Commission finds the use of a WACC of 6.25 per cent to be a reasonable placeholder. The Commission directs EPCOR to true up the CS49 rate to reflect the actual 2019 WACC. paragraph 23
2. Furthermore, and consistent with past practices, the Commission directs EPCOR to true up any differences if the actual in-service date differs from September 1, 2019, which is the effective date contemplated in the application. For purposes of regulatory efficiency, EPCOR is directed to true up the CS49 rate to reflect both the 2019 actual WACC and the actual in-service date at the same time, as part of its 2021 annual performance-based regulation (PBR) rate adjustment application to be filed in September 2020. paragraph 24
3. Consistent with Decision 23842-D01-2018, the Commission reiterates its direction to EPCOR to examine the relevance of using capital costs to allocate OM&G costs in its next Phase II application. EPCOR is directed to consider whether the use of a static OM&G allocation ratio that is unchanged during the PBR term results in the efficient and fair allocation of OM&G costs across all of EPCOR’s customers or if there is a need for another mechanism to efficiently and fairly address material differences between the incremental OM&G costs incurred by EPCOR as new customers are added to (or removed from) the CS rate class. If EPCOR determines that capital costs remain relevant as an allocator, EPCOR is directed to update the ratio as required. paragraph 25
4. In granting approval of the application for the proposed CS49 rate, the Commission expressly does not authorize the recovery by EPCOR of any amount payable by the rate CS49 customer from other EPCOR customers in the event of default or bankruptcy of the rate CS49 customer. The Commission directs EPCOR to bring to its attention any such unpaid amount, at which time the regulatory treatment of the outstanding amounts will be determined. paragraph 27