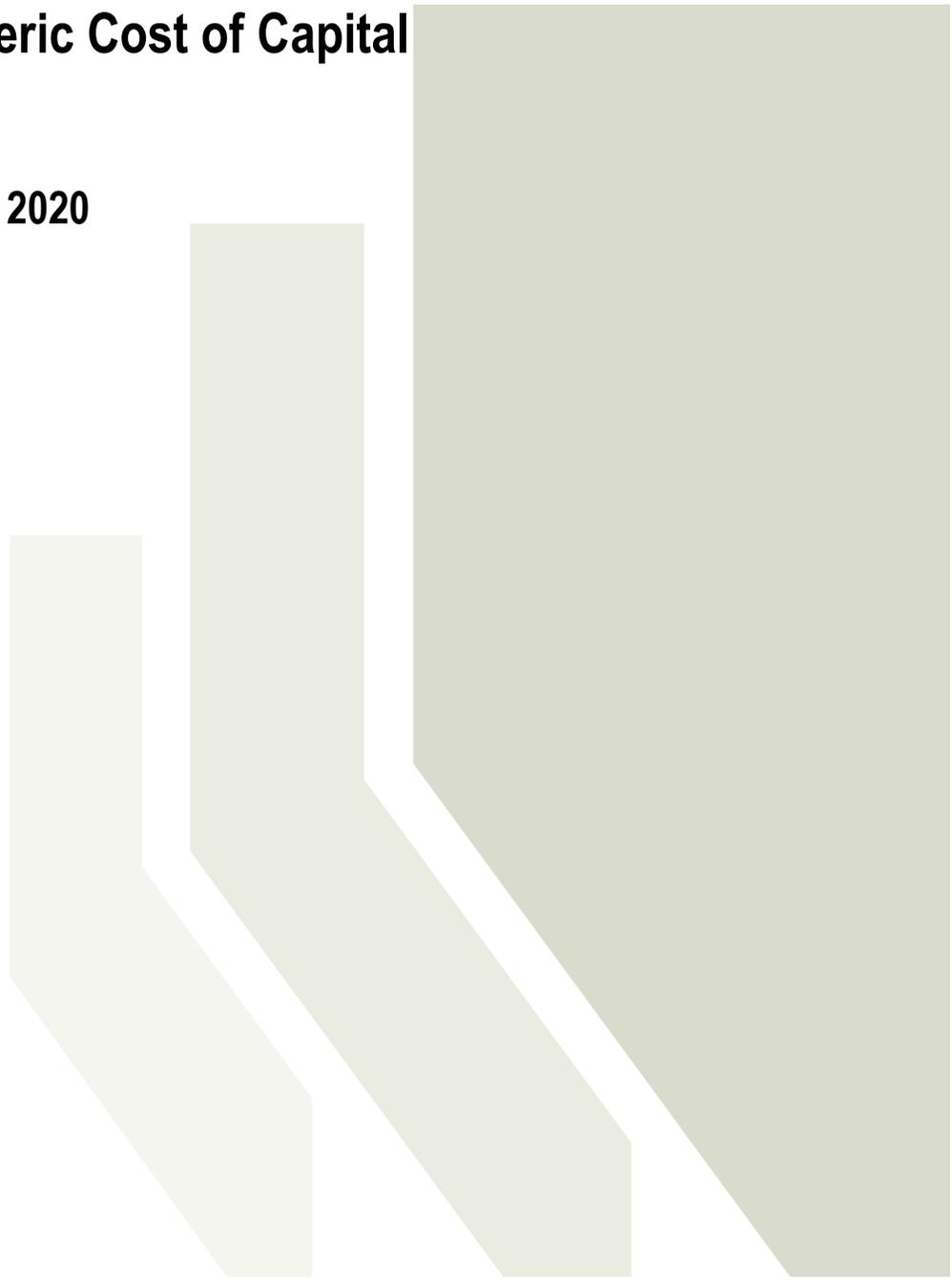




## 2021 Generic Cost of Capital

October 13, 2020



**Alberta Utilities Commission**

Decision 24110-D01-2020  
2021 Generic Cost of Capital  
Proceeding 24110

October 13, 2020

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**2021 Generic Cost of Capital**

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**1 Decision summary**

1. In this decision, the Alberta Utilities Commission sets out the return on equity (ROE) of 8.5 per cent and deemed equity ratio of 37 per cent (39 per cent for AltaGas Utilities Inc.) (collectively, the ROE and equity ratios, referred hereto as “parameters”) for the year 2021 on a final basis. The established parameters apply to the following utilities:

- AltaGas Utilities Inc.<sup>1</sup>
- AltaLink Management Ltd.<sup>2</sup>
- ATCO Electric Ltd.<sup>3</sup>
- ATCO Gas & Pipelines Ltd.<sup>4 5</sup>
- ENMAX Power Corporation<sup>6</sup>
- EPCOR Distribution & Transmission Inc.<sup>7</sup>
- FortisAlberta Inc.<sup>8</sup>
- KainaiLink L.P.<sup>9</sup>
- City of Lethbridge<sup>10</sup>
- PiikaniLink L.P.<sup>11</sup>
- The City of Red Deer<sup>12</sup>
- TransAlta Corporation<sup>13</sup>

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<sup>1</sup> Natural gas distribution.

<sup>2</sup> Electricity transmission, including AltaLink Management Ltd. as general partner of AltaLink L.P., KainaiLink L.P. and PiikaniLink L.P.

<sup>3</sup> Electricity transmission and distribution. Unless otherwise indicated, a reference to ATCO Electric includes both the transmission and distribution operations of this utility.

<sup>4</sup> ATCO Gas refers to the utility’s natural gas distribution operations. ATCO Pipelines refers to the utility’s natural gas transmission operations.

<sup>5</sup> Collectively, ATCO Electric, ATCO Gas and ATCO Pipelines are referred to as the ATCO Utilities.

<sup>6</sup> Electricity transmission and distribution. Unless otherwise indicated, a reference to ENMAX refers to both the transmission and distribution operations of this utility.

<sup>7</sup> Electricity transmission and distribution. Unless otherwise indicated, a reference to EPCOR refers to both the transmission and distribution operations of this utility.

<sup>8</sup> Electricity distribution.

<sup>9</sup> Electricity transmission. The Commission approved the transfer of specific transmission assets to KainaiLink L.P. in Decision 22612-D01-2018: AltaLink Management Ltd., AltaLink L.P. Transfer of Specific Transmission Assets to PiikaniLink L.P. and KainaiLink L.P. and the Associated 2017-2018 General Tariff Applications, Proceeding 22612, November 13, 2018.

<sup>10</sup> Electricity transmission.

<sup>11</sup> Electricity transmission. The Commission approved the transfer of specific transmission assets to PiikaniLink L.P. in Decision 22612-D01-2018, referenced above.

<sup>12</sup> Electricity transmission.

<sup>13</sup> Electricity transmission assets.

2. The parameters set out in this decision do not apply to EPCOR Energy Alberta GP Inc., ENMAX Energy Corporation and Direct Energy Regulated Services because these utilities are regulated pursuant to the *Electric Utilities Act, Regulated Rate Option Regulation* and the *Gas Utilities Act Default Gas Supply Regulation*, respectively.

3. The parameters for the various investor-owned water utilities under the Commission's jurisdiction were not determined in this proceeding. However, the determinations in this proceeding may be considered in other proceedings, should issues respecting ROE and deemed equity ratios arise for these utilities.

## 2 Background and procedural summary

4. On August 2, 2018, the Commission issued the 2018 Generic Cost of Capital (GCOC) decision<sup>14</sup> approving the parameters for the period 2018-2020 for a number of regulated utilities.<sup>15</sup> Shortly after, on December 4, 2018, the Commission initiated<sup>16</sup> the present 2021 GCOC proceeding with parties filing evidence on January 20, 2020.

5. Subsequent to evidence being filed, the Commission received a motion<sup>17</sup> on March 17, 2020, from the Office of the Utilities Consumer Advocate (UCA) requesting that the proceeding be suspended in light of the extraordinary turmoil and uncertainty in financial markets at the time on account of the COVID-19 pandemic. The UCA requested a six-month suspension with an opportunity for all parties to update their evidentiary submissions thereafter. On March 19, 2020, the Commission suspended the proceeding and indicated that it would review and reassess its decision every 30 to 60 days, unless circumstances changed dramatically and called for earlier action.<sup>18</sup>

6. In the course of the subsequent five months, the Commission regularly reached out to the utilities and interveners<sup>19</sup> in this proceeding to: (i) assess the feasibility of successfully resuming the 2021 GCOC proceeding; (ii) obtain input on what factors the Commission should consider in deciding when and under what conditions to recommence the proceeding; (iii) ensure that all registered parties were sufficiently staffed and capable of participating in the proceeding; and (iv) determine whether the evidence submitted on January 20, 2020, requires updating upon resumption of the proceeding. In response, the overwhelming majority of the registered parties stated that they did not support resuming the proceeding primarily because of the impracticality of reasonably forecasting financial and economic conditions in the foreseeable future.<sup>20</sup>

7. The Commission's last communication<sup>21</sup> with registered parties in this proceeding was on August 7, 2020, at which time the Commission acknowledged that all parties, except for the Consumers' Coalition of Alberta, maintained their positions that the ongoing COVID-19

<sup>14</sup> Decision 22570-D01-2018: 2018 Generic Cost of Capital, Proceeding 22570, August 2, 2018.

<sup>15</sup> AltaGas, AltaLink, ATCO Electric, ATCO Gas & Pipelines Ltd., ENMAX, EPCOR, Fortis, Lethbridge, Red Deer and TransAlta.

<sup>16</sup> Exhibit 24110-X0002.

<sup>17</sup> Exhibit 24110-X0441.

<sup>18</sup> Exhibit 24110-X0445.

<sup>19</sup> Comprising the UCA, The City of Calgary, the Consumers' Coalition of Alberta, Canadian Association of Petroleum Producers, and Industrial Power Consumers Association of Alberta.

<sup>20</sup> See, for example, exhibits 24110-X0480, 24110-X0479, 24110-X0483, 24110-X0482 and 24110-X0485.

<sup>21</sup> Exhibit 24110-X0486.

pandemic and related economic and financial market uncertainty/volatility continued to preclude the immediate successful resumption of the proceeding. The Commission also acknowledged parties' requests to update their evidentiary submissions upon the eventual resumption of the proceeding.

8. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. 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 2021 parameters and completion of current GCOC proceeding

9. By way of a letter<sup>22</sup> dated May 26, 2020, the Commission noted the Alberta Utilities' <sup>23</sup> request to extend into 2021 for each utility, on a final basis, the currently approved ROE of 8.5 per cent and equity ratio of 37 per cent (39 per cent for AltaGas) as originally approved in Decision 22570-D01-2018. This request from the Alberta Utilities was premised on the need to ensure stability for the utilities, customers and investors given how little time remained for the Commission to conduct the proceeding and issue a prospective decision by the end of 2020.

10. In its response, the Commission stated that it was amenable to considering how the parameters for all or some part of 2021 might be set on a prospective basis, observing that no party was in favour of resuming the proceeding in the near term, and that the time to conduct the 2021 GCOC *and* issue a decision that would prospectively set parameters for 2021 had essentially passed. The Commission also noted that, in contrast to the comprehensively developed record of the 2018 GCOC, this proceeding was suspended at an early stage, limiting the present record to only an evidentiary submission phase and a round of information requests. As such, a significant portion of the remaining process steps, consisting of rebuttal evidence, oral hearing, argument and reply argument, remained outstanding. The partially developed record, combined with the unprecedented and ongoing turmoil in global financial markets, provided no reasonable basis for the Commission to extend its previous GCOC findings on a *final* basis for 2021, without regulatory due process.

11. Nevertheless, the Commission wished to explore practical ways of addressing the concerns raised by the utilities including, especially, the need for certainty and stability in the current environment, despite the unsettled nature of financial markets, by allowing for final parameters to be established in advance of the test period. The Commission offered each regulated utility the ability to select one of the following options for setting its parameters in 2021:

- (1) Fully interim parameters for 2021.

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<sup>22</sup> Exhibit 24110-X0459.

<sup>23</sup> AltaGas Utilities Inc., AltaLink Management Ltd., the ATCO Utilities (consisting of ATCO Electric Ltd., ATCO Gas and ATCO Pipelines Ltd.), FortisAlberta Inc., ENMAX Power Corporation, EPCOR Distribution & Transmission Inc.

- (2) Rolling final retrospective parameters for 2021.<sup>24</sup>
- (3) Rolling final prospective parameters for 2021.<sup>25</sup>
- (4) Fully final parameters for 2021 determined by way of a negotiated settlement with parties.
- (5) Fully final parameters for 2021 with an ROE of 8.3 per cent.

12. In the same correspondence, the Commission clarified that the deemed equity ratios will mirror the treatment of the ROE under each of options 1, 2 and 3 for 2021. Under options 4 and 5, the deemed equity ratios determined in the 2018-2020 GCOC will be effective for the duration of 2021.

13. In response, AltaGas,<sup>26</sup> Fortis,<sup>27</sup> EPCOR,<sup>28</sup> AltaLink,<sup>29</sup> <sup>30</sup> the ATCO Utilities<sup>31</sup> and ENMAX<sup>32</sup> elected Option 3 – Rolling final prospective parameters for 2021.

14. The Commission is of the view that “early 2021” (as suggested by some of the utilities earlier this year) may be an appropriate time to return to the task of determining going-forward parameters for the utilities. The Commission does not consider, however, that this timing is likely to permit a final decision to be issued prior to the end of Quarter 3 of 2021, meaning that those utilities that selected Option 3 will receive their current ROE and equity thickness parameters for the entirety of 2021 on a final basis, and the scope of the future GCOC proceeding will no longer include 2021.

15. Further, given the amount of time that has passed since this proceeding was placed in abeyance, together with the impact of various economic and financial developments during the

<sup>24</sup> Under this option, the Commission would extend the currently approved parameters for each utility on an interim basis one full quarter at a time. On the date a decision was issued that determined final parameters for 2021, these parameters would become final commencing on the first day of the quarter in which the decision is issued. For example, beginning January 2021, the utilities would receive current parameters on an interim basis for Quarter 1 (Q1) 2021. Had a decision in the present proceeding been issued in April 2021, the interim Q1 parameters would automatically become final with full effect from January 1, 2021, to March 31, 2021. The new parameters, as established in the decision, would take effect on a final basis commencing April 1, 2021.

<sup>25</sup> Under this option, the Commission would extend the currently approved parameters for each utility on a final basis one full quarter at a time. On the date a decision was issued that determined final parameters for 2021, these parameters would become final, commencing on the first day of the following quarter. For example, beginning January 2021, the utilities would receive current parameters on a full and final basis for Q1 2021. Had a decision in the present proceeding been issued at any time during Q1 2021, the parameters determined in that decision would come into effect on April 1, 2021. If a decision was not issued in Q1 2021, then on April 1, 2021, the parameters in effect in Q1 would take effect on a full and final basis for Q2 2021. As each new quarter of 2021 is reached, without a decision, the parameters from the previous quarter would take effect on a full and final basis for the following quarter up to the end of 2021.

<sup>26</sup> Exhibit 24110-X0472.

<sup>27</sup> Exhibit 24110-X0473.01.

<sup>28</sup> Exhibit 24110-X0474.

<sup>29</sup> Exhibit 24110-X0475.

<sup>30</sup> In its evidence (Exhibit 24110-X0045, paragraph 12), AltaLink made submissions on behalf of its partners, PiikaniLink L.P. and KainaiLink L.P., requesting that the same parameters should also apply to AltaLink’s partners, in accordance with the terms of transfer of certain AltaLink assets to these entities.

<sup>31</sup> Exhibit 24110-X0476.

<sup>32</sup> Exhibit 24110-X0471.

intervening period, the Commission agrees with parties that they should be provided an opportunity to update or file new evidence.

16. In light of the foregoing, the Commission concludes the present proceeding without further process and will commence a new GCOC proceeding to address a future period. Parties seeking to rely on evidence filed in the current proceeding may refile this evidence in the new GCOC proceeding. The Commission also grants The City of Calgary's request<sup>33</sup> for leave to file evidence. Calgary may do so concurrently with other parties. The Commission will pre-register all registered parties in this proceeding in the upcoming new GCOC proceeding and provide additional process related details in the near future.

### 3.1 Lethbridge and Red Deer

17. The cities of Lethbridge and Red Deer elected Option 1 – Fully interim parameters for 2021, but jointly informed the Commission that in the event “all other utilities unanimously select an option other than status quo, then we suggest that the Commission order the same treatment for the cities as well.”<sup>34</sup> Accordingly, the Commission extends application of Option 3 to these two parties.

### 3.2 TransAlta

18. The GCOC decision has historically applied to certain electricity transmission assets of TransAlta. In the present proceeding, the Commission did not receive a statement of intent to participate from TransAlta and, consequently, no election was made by this party in response to the Commission's June 18, 2020, correspondence.<sup>35</sup> In Decision 2191-D01-2015,<sup>36</sup> the Commission found that TransAlta should be awarded the same equity ratio as the taxable electric transmission utilities in Alberta (e.g., AltaLink, ATCO Electric (Transmission), etc.). This convention has been maintained by the Commission in all subsequent GCOC decisions. Accordingly, for the purposes of this decision, the Commission considers it reasonable to set the parameters for TransAlta according to Option 3 as well.

## 4 Costs award

19. In accordance with the requirements of Rule 022: *Rules on Costs in Utility Rate Proceedings*, parties may submit their cost applications for the Commission's consideration within 30 days of the date of this decision. In this regard, the Commission considers the date of this decision, October 13, 2020, to represent the close of record date for the purpose of filing costs claim applications.

<sup>33</sup> Exhibit 24110-X0443.

<sup>34</sup> Exhibit 24110-X0478.

<sup>35</sup> Exhibit 24110-X0470.

<sup>36</sup> Decision 2191-D01-2015: 2013 Generic Cost of Capital, Proceeding 2191, Application 1608918-1, March 23, 2015.

**5 Order**

20. It is hereby ordered that:

- (1) The final approved generic return on equity for AltaGas Utilities Inc., AltaLink Management Ltd. and its partners PiikaniLink L.P. and KainaiLink L.P., ATCO Electric Ltd., ATCO Gas, ATCO Pipelines, ENMAX Power Corporation, EPCOR Distribution & Transmission Inc., FortisAlberta Inc., the transmission operations of the City of Lethbridge, the transmission operations of The City of Red Deer, and certain electricity transmission assets of TransAlta Corporation, is set by extending the currently approved rate for the duration of 2021.
- (2) The final approved deemed equity ratio for AltaGas Utilities Inc., AltaLink Management Ltd. and its partners PiikaniLink L.P. and KainaiLink L.P., ATCO Electric Ltd., ATCO Gas, ATCO Pipelines, ENMAX Power Corporation, EPCOR Distribution & Transmission Inc., FortisAlberta Inc., the transmission operations of the City of Lethbridge, the transmission operations of The City of Red Deer, and certain electricity transmission assets of TransAlta Corporation, is set by extending the currently approved rate for the duration of 2021.

Dated on October 13, 2020.

**Alberta Utilities Commission**

*(original signed by)*

Bohdan (Don) Romaniuk  
Acting Commission Member

## Appendix 1 – Proceeding participants

<b>Name of organization (abbreviation) Company name of counsel or representative</b>
AltaGas Utilities Inc. (AltaGas) MLT Aikins LLP
AltaLink Management Ltd. (AltaLink) Borden, Ladner Gervais LLP
ATCO Electric Ltd. (ATCO Electric)
ATCO Gas
Canadian Association of Petroleum Producers
Consumers' Coalition of Alberta Torys LLP
ENMAX Power Corporation (ENMAX) Torys LLP
EPCOR Distribution & Transmission Inc. (EPCOR) Borden, Ladner Gervais LLP
FortisAlberta Inc. (Fortis) Fasken Martineau DuMoulin LLP
Industrial Power Consumers Association of Alberta
Office of the Utilities Consumer Advocate (UCA) Reynolds, Mirth, Richards & Famer LLP
Cities of Lethbridge and Red Deer
The City of Calgary McLennan Ross Barristers & Solicitors
1759511 Alberta Ltd. Walsh LLP

Alberta Utilities Commission

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