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Province of Alberta, on**

28th day of July 2004.



For Alberta Energy and Utilities Board

EUB Decision Report Number 2004-054

Application Number 1317784

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ATCO Electric Ltd.

Code of Conduct Exemptions

July 28, 2004

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2004-054: ATCO Electric Ltd.

Code of Conduct Exemptions

Application No. 1317784

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1 INTRODUCTION

In an application (the Application) dated October 22, 2003 ATCO Electric Ltd. (AE) applied to the Alberta Energy and Utilities Board (EUB or the Board) for certain exemptions and other relief from the ATCO Group Inter-Affiliate Code of Conduct (the Code) approved in Decision 2003-040 dated May 22, 2003.

On November 10, 2003 the Board issued a Notice of Application that called for receipt of interventions and objections by November 21, 2003. On February 5, 2004 the Board issued correspondence seeking further submissions from the parties regarding the Application in light of the Board's decision with respect to EPCOR Utilities Inc. Code of Conduct and Exemption Application, rendered in Decision 2004-010 dated February 3, 2004. On March 29, 2004 the Board issued correspondence setting out a process for the hearing of the Application.

The above hearing process called for the submission of information requests (IRs) to AE on April 8, 2004, responses to IRs on April 21, 2004, written argument from the interveners on May 5, 2004 and written reply from AE on May 19, 2004. The Board therefore considers May 19, 2004 to be the date for close of record for this proceeding.

2 DETAILS OF THE APPLICATION

Sharing of Employees

In the Application, AE stated that Transmission and Distribution share some employees such as in the operation of the system (e.g. Distribution servicemen are sometimes used as first responders for Transmission outages) and in system planning (e.g. in life cycle economic analysis for new loads where Distribution employees work with Transmission employees to analyze and recommend the least cost alternative). AE maintained the synergy obtained by these employees working together, without impediment, improved operating efficiencies and customer service. A number of these situations entail employees who have to varying degrees a role in the restrictions outlined in Section 3.3.1 (a) to (d) and who would otherwise be precluded from working together. For example, all AE's servicemen have knowledge of Confidential Information (even if just the customer name and phone number). AE stated customer service, efficiency and the purpose of the Code were not served if the servicemen were restricted from assisting Transmission in outage restoration because of his/her customer knowledge.

AE noted that in the AE 2003-2005 General Tariff Application (GTA), #1275494 Section 2-B-2 page 10 of 31, the annual amount of operating and maintenance (O&M) services exchanged between Transmission and Distribution is in the \$400,000 range (Distribution services to

Transmission) and even less from Transmission to Distribution. While time sheets are reviewed regularly by the supervisor to ensure proper charging, AE maintained it was a significant amount of work to collect all the various times they may have charged (given their current systems) and compile data tied to particular service agreements. AE estimated .3 to .5 person years would be required to maintain the Service Agreements, collect and verify the data and compile it into the annual report. AE suggested that alternative methods such as that used in Section 24 of the GTA allowed for sufficient scrutiny of common costs during the regulatory process. AE submitted that the benefit of undertaking the additional recording, tracking and analysis did not outweigh the effort. AE believed the intent of the Code would not be impaired especially since this sharing of employees was always subject to review through the regulatory process. AE maintained maximum customer benefit was achieved by granting this exemption to Section 3.3.1.

Joint Use of Poles

AE requested an interpretation of the Code with respect to Distribution's use of transmission poles. AE explained that approximately 14,000 Transmission poles are being used by Distribution in a double circuit configuration. This means that the upper circuit and the pole are owned by Transmission, but the lower circuit is owned and paid for by Distribution. AE interpreted the Code to require Distribution to contribute to the life cycle cost of the pole used to hold the lower circuit and to enter into service agreement(s) for that use.

If AE's interpretation was correct, AE submitted that the administrative effort of maintaining joint-use agreements would be inefficient and proposed to use an accounting policy. ATCO submitted that the use of an accounting policy was still in compliance with the intent of the Code. AE requested a confirmation of their interpretation as described above. If confirmed, AE requested a time exemption from October 31, 2003 (Code Section 2.4 "Coming Into Force") to their next GTA. Additionally, if their interpretation was confirmed, AE proposed to use an accounting policy instead of service agreements and accordingly requested exemption from Code Section 3.3.5 "Service Agreements".

Time Exemption for AUS

AE also sought a time exemption from the Code Section 2.4 "Coming into Force" for ATCO Utility Services (AUS). AE identified four AE officers as also being officers of AUS. Neither entity was a subsidiary of the other. AE noted Section 3.1.4 of the Code required this governance structure be changed. AE advised that AUS was, for the most part, formed in response to a government policy decision regarding the competitive provision of transmission services in Alberta. As that decision is now in abeyance and under review by government, the structure of AUS, going forward, would be materially affected by the result of that review. AE claimed it could not meet the October 31, 2003 compliance date for this change to be implemented and requested a time exemption to have this fully compliant on or before three months following the government's implementation of regulations concerning the role of competitive transmission providers in meeting the needs for new transmission in the province. AE submitted that granting this exemption would not be detrimental to customer interests since there was minimal business activity for AUS given the deferral of the government policy decision above.

Northern Utilities

AE stated for purposes of clarity they were treating their northern utility affiliates, collectively known as the Northern Utilities, and which were regulated by a regulatory agency other than the

EUB, as regulated “Utility Affiliates” for the purposes of the Code. The northern affiliates were the Yukon Electrical Company Limited, Northland Utilities (Yellowknife) Limited and Northland Utilities (NWT) Limited.

Shared Officers

Finally, AE advised that certain officers of AE, ATCO Gas, CU Water and ATCO Pipelines, were also officers of the holding company, and held similar officer positions with non-regulated Affiliates. AE indicated that the role of these officers is limited to the provision of governance, policy, and strategic direction of the Utilities and the non-regulated Affiliates, and as such, this dual role is permitted by Section 3.1.4. As well, AE stated these officers were aware of the requirements of Section 3.1.5, and would ensure that this guiding principle was applied in their roles.

3 VIEWS OF THE PARTIES

Views of the Alberta Association of Municipal Districts & Counties and the Alberta Federation of REA’s Ltd. (REA/AAMDC)

Sharing of Employees

With respect to the joint use of employees and a consequent exemption to Section 3.3.1, the REA/AAMDC submitted that AE provided no evidence to support their claim that additional staffing would be justified to track and report these transactions for Code compliance. REA/AAMDC noted that AE acknowledged and confirmed that these inter-affiliate transactions were currently tracked and reported for GTAs. Therefore, REA/AAMDC contended that maintaining these records further for compliance reporting and auditing for the Code should not in anyway put undue pressure on current staffing levels. REA/AAMDC argued that if the data is subject to full disclosure for regulatory reporting as explained by AE, its inclusion in the compliance report should not be a burden to AE’s staff.

REA/AAMDC did not agree with AE that the opportunity to review inter-affiliate transactions during a GTA replaces the requirement of compliance filings and compliance audits. While a GTA provided an opportunity to scrutinize the utility’s forecasts, it did not offer the level of detail to ensure compliance with the Code.

REA/AAMDC stated that in order to maintain operational efficiencies for the sharing of specified employees such as line servicemen, AE did not require a general exemption for ATCO Electric Transmission (AET) and ATCO Electric Distribution (AED). REA/AAMDC submitted that an exemption similar to the one directed by the Board for EPCOR Utilities Inc. in Decision 2004-010 dealing with the sharing of operational and administrative employees and the release of confidential information would also be an appropriate level of exemption for AE.

REA/AAMDC noted that in Decision 2004-010, on pages 3 to 4, the approved exemptions to Sections 3.3.1 and Section 6.3 were:

Board Approved Exemption - Section 3.3.1
Notwithstanding the provisions of Section 3.3.1 (Sharing of Employees) of the EPCOR Code, ETI and EDI may share operational and administrative employees, but not management team members, officers or directors, in the manner and in the circumstances

described in the Application and as permitted by this Decision, in connection with the provision of the following services:

- the real-time operation of ETI's and EDI's facilities, including emergency dispatch;
- inspection of operating facilities for safety and reliability;
- preventative, corrective and capital maintenance of facilities;
- system and operational planning;
- metering and meter reading;
- occupational health and safety training;
- environmental and waste management;
- stores and material handling; and
- accounting.

ETI and EDI may share employees in the manner herein described, provided that:

- (a) the services provided by the shared employees are accounted for on a Cost Recovery Basis;

the services provided by the shared employees shall be governed by the terms of the Inter-Corporate Service Agreements referred to in the Application; and

- (c) the employees to be shared are able to carry out their responsibilities in a manner that preserves the form, and the spirit and intent, of the EPCOR Code. In particular, an employee:

- (i) shall not be shared if it could reasonably be considered to be detrimental to the interests of customers of ETI or EDI, and
- (ii) if being shared, shall abstain from engaging in any activity that could reasonably be considered to be detrimental to the interests of the customers of ETI or EDI.

Board Approved Exemption - Section 6.3

ETI and EDI are also exempted from the provisions of Section 6.3 (No Release of Confidential Information) of the EPCOR Code to the extent that any employee of one Utility provides any of the above services to the other Utility and by so doing comes into possession of Confidential Information relating to a customer or potential customer of the other Utility.

Joint Use of Poles

REA/AAMDC noted that AE requested an exemption from Section 3.3.5 Service Agreements and a time extension from October 31, 2003 to the next GTA filing for compliance, with respect to the joint use of poles by transmission and distribution. REA/AAMDC stated that while other non-affiliated utilities such as TransAlta and Aquila have managed joint-pole use with service agreements establishing the market value of the shared use, AE has not dealt with this issue between its affiliated utilities. Now that the joint-pole use has been identified, the Code requires that the sharing of the assets be on a cost recovery basis.

REA/AAMDC claimed the development of a service agreement that stipulates the services, the allocation and cost recovery provisions and other appropriate matters that would be filed with the

compliance plan annually would provide uniformity with the reporting of other affiliate transactions. An accounting policy, while not fully explained by AE, would likely need to establish similar parameters as those required by a service agreement. Therefore, REA/AAMDC maintained that having in place service agreements and having only very limited exemptions would facilitate the consistency and review of information filed annually in the compliance reports. REA/AAMDC submitted that AE should be directed to establish a service agreement and the appropriate pricing on a cost recovery basis for the joint pole use. Compliance with the Code should be completed within a reasonable time period.

Time Exemption for AUS

With respect to AUS, REA/AAMDC noted that AE has requested a time exemption from the October 31, 2003 compliance date to three months following the government's implementation of new regulations concerning the role for competitive Transmission providers. REA/AAMDC stated that AUS has been active since 2000 and has explored investment in utility-type infrastructure both within the province and external to Alberta and has investigated the provision of non-utility electrical and communications services in Alberta.¹ The 2003 Compliance Report, Appendix 6 shows that in addition to administrative services, joint pole use, and O&M services, AUS paid to AE \$895,000 for engineering, construction management, material management, O&M and marketing services related to various projects.

REA/AAMDC maintained that regardless of the outcome of the government's policy on competitive transmission providers, AUS was currently active in commercial non-utility activities and not in compliance with the Code in terms of its governance structure. REA/AAMDC submitted AE should be directed to modify the governance of AUS to ensure compliance with the Code immediately.

Northern Utilities

With respect to AE's interpretation that its Northern Utilities could be treated as "regulated Utility Affiliates" for purposes of the code, REA/AAMDC noted that the Code defined a "Utility" as an entity that provides a "Utility Service" and falls within the definition of the *Electric Utilities Act*, the *Gas Utilities Act* or the *Public Utilities Board Act*. REA/AAMDC submitted that allowing these Northern Utilities to be included as "regulated Utility Affiliates" for the Code would adversely impact the fair treatment of the regulated customers in Alberta and provide preferential treatment to these affiliated companies.

REA/AAMDC proposed that the Northern Utilities be treated as "Non-Utility Affiliates" and noted a number of differences between the treatment of utility vs. non-utility affiliates.² REA/AAMDC noted that the services provided by AE to the Northern Utilities did not fit neatly into either "For Profit" or "Shared Services" Code definitions. In particular, REA/AAMDC noted that while "Shared Services" may be priced on a "Cost Recovery Basis", "For Profit Services" must use Fair Market Value (FMV) for transfer pricing. REA/AAMDC maintained that this issue of transfer pricing had a direct impact on AE's regulated customers in Alberta.

REA/AAMDC noted that AE has stated the services to these Northern Utilities are transferred on a cost recovery basis because it is not possible to obtain FMV for such a list of comprehensive

¹ REA/AAMDC.ATCO-3

² REA/AAMDC argument, pp. 7-8

services. AE then went on to say that FMV pricing is not required because the services provided are Shared Services. REA/AAMDC noted that firstly, the services provided include such areas as financial reporting, payroll, accounts payable, human resources, use of computer systems and regulatory support. REA/AAMDC contended that all of these services could be retained on a contractual basis from third party vendors and as such a fair market value could be determined. Moreover, REA/AAMDC maintained that designating these services as “Shared Services” has the benefit for AE of being able to use cost recovery as the transfer price instead of a FMV.

REA/AAMDC noted AE’s comment that it has not documented transactions between these ‘regulated’ affiliates with the same rigour as applied to transactions between regulated and non-regulated affiliates. REA/AAMDC acknowledged that the Code supported inter-affiliate economies and efficiencies; however, they submitted that it does not advocate practices that would not be in the best interests of Alberta customers. Therefore, the transfer pricing for these transactions should be at FMV, as the transactions have more in common with “For Profit” activities than with “Shared Services”.

Sharing of Officers

Finally, REA/AAMDC noted that in its October 22, 2003 submission AE provided a list of officers holding a dual role, being officers of the holding company and officers of unregulated affiliates. Based on AE’s statement that these officers provide corporate governance and policy direction as permitted under Section 3.1.4, REA/AAMDC had no comment on this matter.

Views of AE

Sharing of Employees

AE noted REA/AAMDC’s reference to the Board's treatment of the EPCOR Group of Companies in Decision 2004-010 and its submission that AE should be accorded similar treatment. AE maintained the significant difference between the two circumstances that is ignored by REA/AAMDC is that ATCO Electric – Transmission and ATCO Electric – Distribution are part of a single corporate entity, ATCO Electric. This is to be contrasted with EPCOR Distribution Inc. and EPCOR Transmission Inc., which are separate legal entities and are treated as such under the law.

AE noted, that as a single legal entity in law, it could not contract with itself. Hence, inserting a requirement that “service agreements” exist, with the same party being both the provider and the recipient of the service, makes little sense from either a legal or practical perspective. AE stated that the Board examined the total operations of ATCO Electric, specifically transmission and distribution, in the context of single general tariff applications. These applications explored a variety of matters, including the allocation of common costs as between transmission and distribution.

AE believed that the two functions performed within the same company are caught under the Code due to the technical definitions employed; and submitted that it is not reasonable to require additional administrative work and expense to put in place requirements that are clearly duplicative and unnecessary. AE noted that REA/AAMDC claimed there was no evidence to justify any additional staffing by AE to track and report on compliance filings that would arise if the requested exemption were not granted. AE submitted that a failure to grant the requested exemption would carry with it the burden to undertake work that is not currently performed.

Manpower would be required to perform this work and, as a result, additional staffing would indeed be needed.

Joint Use of Poles

AE noted that it had confirmed in the Application it is taking steps to ensure that a proper cost burden is allocated to each of the transmission and distribution functions with respect to joint use of property. AE further noted REA/AAMDC appear to take issue with the proposed use of an accounting policy to address this matter; and recommended that the Board require that a service agreement be put in place. As submitted above, AE contended that it did not make sense from either a logical or legal perspective that the same entity be expected to contract with itself. Rather, AE maintained an allocation of the costs between the two functions, with supporting documentation pursuant to an approved accounting policy, should be sufficient to satisfy the Board and parties and provide a basis for understanding and monitoring the policy employed.

Time Exemption for AUS

AE also noted that REA/AAMDC took issue with AE's request for a time extension regarding compliance with Sections 3.1.3 and 3.1.4 of the Code, regarding AUS. AE acknowledged AUS had previously engaged in non-regulated transmission facility projects in the Province of Alberta. AE stated AUS was required to assign these projects to ATCO Electric pursuant to changes in the Government's policy regarding the construction of transmission facilities within the Province. AE further stated that at this time the Department of Energy is considering amendments to the transmission legislation, which will hopefully clarify the potential role or involvement of non-regulated transmission facility owners on a go-forward basis. Until this occurs it is unclear what, if any, role AUS will play within the Province of Alberta. AE claimed that it was reasonable to await the outcome of the current legislative review before reorganizing the structure of either company, submitting that its request was reasonable and should be permitted by the Board.

Northern Utilities

AE noted that REA/AAMDC took issue with its treatment of the Northern Utilities as "regulated Utility Affiliates" for purposes of the Code. AE reiterated that the Northern Utilities were subjected to a form of regulatory oversight that was essentially the same as that employed by the EUB. There was, in AE's view, no doubt that the costs incurred by the Northern Utilities were subjected to scrutiny by both interveners and their respective regulators before rates were approved.

AE maintained that this was a relatively small issue and that the shared services provided to the Northern Utilities were not available, in the manner currently provided, in the open market. Hence, a fair market value determination for such services simply did not exist.

AE submitted that costing these services on a "Shared Services" basis benefited both of the regulated utilities and their respective customers due to the achievement of economies of scale. AE stated if it were required to cease the provision of these services, the costs currently incurred by it for its own purposes would not be reduced. Such a result would simply eliminate the efficiencies, economies of scale and benefits experienced by the ratepayers of both the Northern Utilities and AE. AE submitted that such a result would be uneconomic, inefficient and costly, with all ratepayers being worse off as a result. Instead, AE argued that its approach to the costing

of services provided to the Northern Utilities was both reasonable and appropriate and should be accepted by the Board.

Views of the Board

In arriving at its decision in this Application, the Board is mindful of previous comments it has made in past decisions respecting the application of a code of conduct.

In Decision 2002-069 dated July 26, 2002, the Board recognized that certain provisions of the Code might be problematic or unnecessary when dealing with shared services between regulated affiliates and could otherwise harm customers or the applicants, in which case an exemption could be sought.

Given the above, the Board has considered the following factors in arriving at its decision:

- (1) the nature of the business of the applicant;
- (2) the objections received in response to the Application;
- (3) the presence of any Board approved operating/cost allocation policies; and
- (4) the nature of the entities for which the exemption is being sought, that is, the application of the Code to intra-affiliate business units as contrasted with inter-affiliate entities.

Sharing of Employees – Sections 3.3.1(a) to (d)

The Board reviewed the Application for an exemption from the restrictions placed on the sharing of employees between AET and AED. In doing so, the Board notes AE's comments that the employees shared by Transmission and Distribution engage in system operation and planning functions and that the annual amount of O&M services exchanged between Transmission and Distribution is in the \$400,000 range (Distribution services to Transmission) and even less from Transmission to Distribution.³ The Board also notes AE's estimate that it would require .3 to .5 person years to comply with the Code requirement to implement and then maintain the Service Agreements, collect and verify the data and compile into the annual report. The costs of shared services between AET and AED are currently tracked and provided for in a methodology as set forth in Section 24 of the 2003-2004 GTA, and approved by the Board in Decision 2003-071 dated October 2, 2003.

The Board has considered REA/AAMDC's argument that AE has provided no evidence to support their claim that additional staffing would be justified to track and report these transactions for Code compliance, as AE has acknowledged and confirmed that these inter-affiliate transactions are currently tracked and reported for GTAs. As well, the Board notes REA/AAMDC comments concerning AE's claim that the GTA provided a suitable opportunity to examine such costs.

The Board is concerned with the relationships between "Utilities" and "Affiliates" as defined by the Code, including relationships between distinct business units operating within one regulated Utility, as is the case in this instance. The Board's concern in requiring suitable agreements between such utilities and affiliates is to ensure that there is appropriate documentation to

³ See 2003-2005 GTA

support the allocation of costs. It is not persuaded that a general tariff application is the best forum in which to satisfy its concerns.

Nonetheless, the Board finds that it would be in the best interests of customers of both AET and AED to continue with the sharing requirements that have been proposed by AE in Section 24 of the GTA, and approved by the Board in Decision 2003-071, and is prepared to grant the exemption for shared employees requested in the application. The Board has attached to this Decision, as Appendix A, a copy of Section 24 from AE's 2003-20054GTA.

In granting approval for the requested exemption under this section, the Board limits the exemption to shared activities that are currently provided for and for which costs can be allocated under Section 24 of the GTA. Further, this exemption shall only be in effect until such time as the Applicant's next GTA. The Board notes that there is some effort undertaken currently to record these costs and considers that current efforts must be sufficient to meet ATCO's own internal control and external audit purposes and should therefore not require significant enhancement. As a consequence, the Board requires the Applicant in its next GTA to explain how its current cost tracking and allocation system works in detail and why a "Services Agreement" as defined in the Code, to document the services currently allocated in Section 24 of the GTA, should not be developed.

In the event that there are ongoing-shared activities that fall outside of the activities provided for in the scope of Section 24 of the GTA, the Applicant is advised to provide details of such activities for consideration before the Board for a further exemption.

Joint Use of Poles

In considering the request to exempt the application of the Code from joint-pole use, the Board notes from AE's application that approximately 14,000 Transmission poles are being used by Distribution in a double circuit configuration. As such, the upper circuit and the pole are owned by Transmission, but the lower circuit is owned and paid for by Distribution. AE maintains that the administrative effort of maintaining joint-use agreements would be inefficient and proposes to use an accounting policy. AE argues that it does not make sense for the same entity to contract with itself and maintains that an accounting policy would be sufficient.

The Board notes REA/AAMDC's argument that while other non-affiliated utilities such as TransAlta and Aquila have managed joint-pole use with service agreements establishing the market value of the shared use, AE has not dealt with this issue between its affiliated utilities. REA/AAMDC suggests that having in place service agreements and having only very limited exemptions would facilitate the consistency and review of information filed annually in the compliance reports. REA/AAMDC submits that AE be directed to establish a service agreement and the appropriate pricing on a cost recovery basis for the joint pole use. Compliance with the Code should be completed within a reasonable time period.

As already noted, the Board is concerned with the relationships between "Utilities" and Affiliates" as defined by the Code, including relationships between distinct business units operating within one regulated utility, as is the case in this instance. The Board's concern in requiring suitable agreements between such utilities and affiliates is to ensure that there is appropriate documentation to support the allocation of costs.

Unlike the exemption requested for shared employees, the Board notes that AE has indicated that it does not have in place any documentation. Rather, it is still in the process of developing an appropriate cost allocation accounting policy to address this issue. The Board does not consider that a Services Agreement, as defined in the Code, needs to be more onerous than an accounting policy as the Code is not strictly prescriptive in form but is merely suggestive as to the contents to be included. The Board also concurs with the argument of REA/AAMDC respecting the consistency and review of information filed annually in the compliance reports.

For these reasons AE's request is denied and AE is directed to file a Services Agreement, as defined in the Code, to govern the joint use of poles between AET and AED with the Board for approval by October 31, 2004.

Time Exemption for AUS – Section 2.4

The Board has reviewed AE's request for a time exemption from Section 2.4 of the Code as it applies to AUS. The Board notes that AE's rationale for the request is centred on the government's policy with respect to the competitive procurement of transmission. AE has asserted that until the government's plan respecting transmission competition is made clear, that it is reasonable to await the outcome of the current legislative review before reorganizing the structure of either company.

The Board has also considered REA/AAMDC objection to the delay requested.

The Board notes that while AUS has been active in non-regulated transmission projects, it has assigned these to AE pursuant to changes in government policy. The Board concurs with AE that it is not possible to tell what role, if any, AUS will play in transmission development until government policy is finalized. The Board therefore considers it reasonable to grant AE's request in this instance. AE is directed to amend its corporate structure, as necessary under Section 3.1.4 of the Code, to become compliant within three months of the government finalizing its revised transmission policy or by December 31, 2004, whichever is sooner. Should the government not issue its policy prior to the date noted herein, the Board will consider extending this date upon request from AE.

Northern Utilities

In the Application AE stated that it intends to treat the Northern Utilities as regulated "Utility Affiliates" and proposes to allocate costs on a "Shared Services Basis" as such terms are defined under the Code. AE noted that these affiliates were subject to a form of regulatory oversight that it characterized as essentially the same as that employed by the EUB. AE also stated the affiliates in question were fairly small and the services provided to them were not available in the open market. AE submitted that the provision of services to the Northern Utilities generated economies of scale that benefited all customers.

REA/AAMDC submitted that the Northern Utilities did not fall under the code definition of a "Utility" as defined under the Code. Rather, REA/AAMDC asserted that the Northern Utilities should be treated as "Non Utility Affiliates" as defined under the Code. REA/AAMDC suggested that the services provided could be obtained from third party vendors and as such a fair market value could be obtained.

The Board concurs with REA/AAMDC submission that the Northern Utilities do not fall under the Code definition of a "Utility" and agrees that they should be categorized as "Non-Utility Affiliates" for the purposes of the Code.

With respect to the categorization of the services exchanged between AE and the Northern Utilities, the Board notes the comments of REA/AAMDC that they do not fit neatly into either the "For Profit" or "Shared Services" categories as such terms are used in the Code. The Board has also taken into consideration the comments of AE respecting its assertion that the Board should treat these services as "Shared Services" for the purposes of allocating costs under the Code.

However, in making its determination respecting the categorization of these services, the Board notes the relatively small size of the Northern Utilities, the difficulty in determining the fair market value of such services given their size and location, and the regulatory oversight in the northern jurisdiction. The Board considers that the Northern Utilities do generate certain economies of scale that serve to reduce costs that would otherwise be borne by Alberta customers. Moreover, the Board is satisfied the regulatory oversight of these Northern Utilities assists in determining appropriate costs in the absence of a market for such services. For these reasons the Board will allow AE to cost the services it provides to the Northern Utilities on a "Cost Recovery Basis" for the purposes of the Code.

In addition to the above approved exemptions, the Board directs AE to maintain on its website the current version of the Board approved Code along with copies of its policy approved in Section 24 of the GTA. Further, as the Board has granted the exemptions relying, in part, on the presence of this policy, the Board would expect that any material change to this policy that would directly impact the exemptions granted in this decision would be submitted to the Board for approval. Further, the Board directs AE to attach a Schedule to the Code, in the form provided for in Appendix 1 of this Decision, which will be updated from time to time, to identify all exemptions granted by the Board by reference to the Board's Decision number, the date of issuance of the decision granting the exemption and the sections of the Code to which the exemption applies.

4 ORDER

IT IS HEREBY ORDERED THAT:

- (1) In respect of transactions between ATCO Electric Transmission and ATCO Electric Distribution, exemption is granted from the requirements set out in Section 3.3.1, Shared Use of Employees, of the ATCO Group Inter-Affiliate Group Code of Conduct solely for the purposes and in the manner described in the Application and approved by this Decision.
- (2) A time exemption for the requirements of Section 2.4 of the ATCO Group Inter-Affiliate Group Code of Conduct is granted for purposes of the governance structure of AUS. Such exemption to remain in effect until three months of the government finalizing its revised transmission policy or by December 31, 2004, whichever is sooner. Should the government not issue its policy within a reasonable time frame the Board will consider extending this date upon request from AE.

- (3) Pursuant to Section 3.3.5 of the ATCO Group Inter-Affiliate Group Code of Conduct AE is ordered to file with the Board for approval a Service Agreement, governing the shared use of poles by ATCO Electric Transmission and ATCO Electric Distribution, by October 31, 2004.
- (4) Services provided to the Northern Utilities may be provided on a cost recovery basis for purposes of the Code.

Dated in Calgary, Alberta on July 28, 2004.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

T. McGee
Presiding Member

(original signed by)

B. T. McManus, Q.C.
Member

(original signed by)

M. J. Bruni, Q.C.
Acting Member

APPENDIX A – SECTION 24, AE 2003-2005 GTA



"App A - Sec 24 -
Cost Functionalization
(Consists of 5 pages)



"Sec 24 - Schedule
24-E-01.xls"
(Consists of 1 page)



"Sec 24 - Schedule
24-E-02.xls"
(Consists of 1 page)



"Sec 24 - Schedule
24-E-03.xls"
(Consists of 1 page)



Section 24 – Cost Functionalization

A. Overview – General Operation and Maintenance

General operations and maintenance expenditures comprise expenditures for communication equipment, maintenance of company-owned houses and maintenance of offices, warehouses and yards.

The costs for the maintenance of offices, warehouses and yards are directly assigned to the Transmission and Distribution business units. These costs are approximately \$2 million per year and comprise 48% of the total general operation and maintenance expenditures. The allocation methodology for the remaining general operation and maintenance expenses to the Transmission and Distribution business units is outlined in [Schedule 24-E-1](#).

To better allocate costs to the business units, the methodology for assigning carrying costs for staff housing was based on an analysis of expenditures compared with the number of relocations used in the 2001/2002 GTA. This change in methodology did not result in a significant change in the cost allocations as the total costs being allocated by this methodology represent less than 4% of the total general operations and maintenance costs.

The methodology for allocating communication costs is based on an analysis of expenditures. The results of the analysis used in the 2003/2005 GTA period of 64% being allocated to Transmission and 36% being allocated to Distribution are in line with what was being allocated in the 2001/2002 GTA.



B. Overview – Corporate Administration and General

Corporate Administration and General Expenses are those corporate costs that are not directly associated with the principal activities of the company. The principal activities of the company include the design, construction, operation and maintenance of substations, lines and communication equipment, including the capital activities required to continue to operate and maintain the facilities in system improvements.

The costs comprising Corporate Administration and General Expenses are outlined in [Schedule 22-B-3](#).

The methodologies used to allocate the costs to the Transmission and Distribution business units are outlined in [Schedule 24-E-2](#) with the dollars allocated by each of these cost allocators outlined in [Schedule 22-B-5](#).

There has been no significant changes in the allocation methodology from the allocations used in the 2001/2002 GTA with the exception of property insurance. Property insurance for lines is now allocated on the insurable value of the lines and property damage insurance for substations and other equipment is now allocated on the respective value of the property, plant and equipment. In 2001/2002, the allocation was based on the weighted average of employees and revenues. The change was required as it is the insurable values that drive the insurance costs. The impact of this change is shown in [Section 22](#), page 4.

The property portion of the reserve for injuries and damages continues to be allocated based on the insurable value of the lines. Although an update to these values resulted in a significant shift in the % allocations as outlined in [Schedule 24-E-2](#) where Transmission's allocation fell to 37% from 69% in the 2001/2002 GTA, the amount of dollars being allocated was not significant. This is seen in [Schedule 22-B-5](#) where the dollars being allocated for the provision for injuries and damages for Transmission increased from



\$104,000 in 2002 to \$164,000 in 2003. This increase of \$60,000 to Transmission is due to both the change in methodology as well as to a \$105,000 increase in the total provision.



C. Overview – General Taxes Other than Income Tax

Each of the components that comprise general taxes other than income was analyzed to determine the assignment of costs to Transmission and Distribution for 2003 to 2005. The costs associated with General Taxes Other Than Income are included in Table 1 of [Section 5](#) for Transmission and Table 1 of [Section 15](#) for Distribution.

For those general taxes that can not be directly assigned to Transmission and Distribution, the cost allocators and the percent allocated to each Business Unit are as follows:

- a) Property Taxes on communications property are assigned to Transmission and Distribution based on an analysis of actual property taxes for communication facilities. This results in an assignment of costs of 85% to Transmission and 15% to Distribution.
- b) Property taxes on offices, warehouses and storage property, are assigned to Transmission and Distribution on the same basis as the capital costs of buildings and structures as outlined in [Schedule 24-E-3](#) are 27% Transmission and 73% Distribution. Business taxes payable are assigned to business units based on occupied square footage. This results in an assignment of costs of 45% to Transmission and 55% to Distribution.



D. Overview – Corporate General Property, Plant, Equipment and Computer Systems

Corporate General Property, Plant, Equipment expenditures comprise expenditures for office furniture, tools, instruments and equipment and leasehold improvements. Computer Systems costs relates to expenditures on corporate computer systems such as Human Resources Systems and Financial Information systems.

The cost allocators and the cost components relating to these expenditures are outlined in [Schedule 24-E-3](#). There has been no change to the methodology used in the 2001/2002 GTA.

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Assignment of General Operation and Maintenance Costs

Cost Allocator	Cost Components	2001 and 2002 Assignment		2003 to 2005 Assignment	
		Transmission	Distribution	Transmission	Distribution
Analysis of Expenditures	Communication Costs - analysis of communication expenditures	61%	39%	64%	36%
Analysis of Expenditures	Carrying Costs for Staff Housing			26%	74%
Average Number of Staff Relocations	Carrying Costs for Staff Housing	21%	79%		

Cost Allocator	Cost Components	2001 and 2002 Assignment		2003 to 2005 Assignment	
		Transmission	Distribution	Transmission	Distribution
Number of Employees	Human Resources, Payroll, Health & Safety, Corporate Services Administration, Voice Communications, Public & Excess Liability Insurance, Other Insurance, Office Services, Deferred Pension Write-off, Liability portion of the Reserve for Injuries and Damages	26%	74%	29%	71%
Weighted Average of Employees and Revenue	2000/2001 Public Liability, Property Damage Insurance, & Liability portion of the Reserve for Injuries and Damages	27%	73%		
Analysis of Expenditures	Accounts Payable - analysis of transactions processed	31%	69%	29%	71%
	Aircraft Charges - analysis of expenditures	35%	65%	29%	71%
	Property portion related to lines of Property Damage Insurance and the Reserve for Injuries and Damages - based on respective insurable value of lines	69%	31%	37%	63%
	Property, Plant, Equipment portion of the Property Damage Insurance - based on respective insurable value of Property, Plant and Equipment			88%	12%
Occupied Square Footage	Head Office Rent	42%	58%	45%	55%
Revenue Requirement (Board Approved)	Rate Case Expenditures	26%	74%	36%	64%
Average of Revenue, Net Property, Plant & Equipment and Capital Expenditures	Central Management, Financial Reporting & Administration, Financial Planning & Forecasting, ATCO Charges, Regulatory Administration, Business Systems	44%	56%	45%	55%
Usage - Internal Review of Services Provided	Corporate Communications	5%	95%	10%	90%

ATCO Electric
General Tariff Application 2003 - 2005
Allocation of Corporate General Property, Plant & Equipment and Computer Systems

Schedule 24-E-3
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	Cost Allocator	Cost Components	2001 and 2002 Assignment		2003 to 2005 Assignment	
			Transmission	Distribution	Transmission	Distribution
Corporate GP&E	Assignment of corporate employees to business units	Office Furniture & Equipment and Computer Equipment	32%	68%	36%	64%
	Proportion of land, buildings & structures directly assigned to each business unit	Corporate Tools, Instruments & Equipment	29%	71%	27%	73%
	Proportion of occupied square footage for corporate areas assigned to each business unit	Leasehold Improvements	27%	73%	33%	67%
Computer Systems	Assignment of employees to the business units	Human Resources System (HRIS)	26%	74%	29%	71%
	Average of actual revenue, year-end Net Property, Plant & Equipment and Capital Expenditures	Financial Management System (FIS), Budget Planning System (BIFF), Financial Planning and Forecasting System (ESSBASE), Financial Data Warehouse and Information Technology Infrastructure.	44%	56%	45%	55%