DISPOSITION OF ATCO GAS CALGARY SERVICE CENTRE - DECISION SUMMARY

EXECUTIVE SUMMARY

The purpose of this report is to provide information on the decision made by the Alberta Utility Commission (AUC) on a proceeding where The City participated as an intervener. ATCO Gas (AG) applied to the AUC to sell its Calgary Service Centre and move the existing staff and service functions to seven other service centres in the Calgary Region. The City of Calgary intervened in the AUC proceeding expressing concern over possible deterioration of service levels in the city core and rising capital costs to expand capacity in the other AG Calgary area service centres. The AUC denied AG's application to dispose of the Calgary Service Centre.

ADMINISTRATION RECOMMENDATION(S)

That the Gas, Power, and Telecommunications Committee:

1. Receive this report for information

PREVIOUS COUNCIL DIRECTION / POLICY

The Gas, Power and Telecommunications Committee has requested that Decision Reports be prepared for AUC proceedings where The City participates as an intervener.

BACKGROUND

In June 2015, ATCO Gas filed an application to sell its Calgary Service Centre (CSC) located in the Beltline Area. The CSC is a 1.8 acre property bounded by 10th and 11th Avenue and 9th and 10th Street SW. The current net book value of the property is $2.4 million, and the appraised market value of the assets is $25.5 million. The sale of the CSC would therefore result in a $2.4 million reduction in the rate base, with the remaining sale proceeds going to the AG shareholder. The application stated that the impetus for the move was that the CSC was in need of $4.3 million in repairs in order to mitigate the risk of an emergency situation. The two threats to the CSC included the risk of HVAC failure, resulting in a loss of cooling capacity, and a leaky roof. AG argued that selling the building would save rate payers from having to cover the additional $4.3 million in capital costs.

In its application, AG indicated that it planned to withdraw the CSC from utility service, having determined that it could fully accommodate all CSC staff by more efficiently using existing space at seven other facilities in the Calgary region. All core operations personnel for the Calgary region are currently located at the central facility. The $1.3 million in incremental capital costs of relocating its employees, along with any required renovations to accommodate them in the existing buildings, would be added to AG's rate base. This would be more than offset by the decline in the rate base brought on by the sale of the property. Therefore, there would be a net reduction in the ATCO Gas (South) rate base of $1.1 million. For context, this represents a decrease of approximately 0.1 per cent in the rate base.

Commission approval of the disposition of assets outside of the ordinary course of the gas utility owner's business is required by the *Gas Utilities Act*. Regardless of whether the property is sold or not, any assets removed from utility service must also be withdrawn from the rate base at that time.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

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In addition to concerns regarding any potential impact on utility rates, Calgary was also concerned that the quality of service did not suffer as a result of this transaction.

In dispositions of utility assets outside the ordinary course of business, the Commission must consider if there is any harm to customers arising from a loss or degradation of service or an increase in utility rates due to the disposition.

The City asked AG to explain whether a gas leak or similar emergency in the Beltline area would have the same response time following the relocation. In its submission to the AUC Calgary argued that AG's response, which claimed that the operational functions could be undertaken from anywhere in the Calgary region, lacked any supporting evidence. The Commission concurred, stating that it was not persuaded that service quality would not be affected. AG also purported that service would improve as a result of the transfer of service applications staff to suburban locations. Their claim was that developers and builders would find it more convenient to apply for new service lines in the other locations rather than going into the Beltline. However, it is not necessary that these applications be completed in person; the process can also be completed over the telephone.

With respect to the impact on utility rates, there were three factors to consider: operating costs, the necessary capital expenditures to maintain the CSC, and upgrades to existing facilities. The sale of the CSC was expected to result in a $500,000/year reduction in operating costs, although AG was unable to state unequivocally that there would be no material increase in the operation costs of the seven service centres.

In its application AG purported that the sale of the CSC was necessary in order to avoid the $4.3 million in required capital costs to repair the CSC. This expenditure forecast was called into question, as AG did not provide a copy of the review that called for improvements to be made. Calgary noted that there was also no competitive procurement process for upgrade estimates, and it was observed that just $470,000 of the $4.3 million in repairs was related to either the roof or the HVAC system. Furthermore, Interveners pointed out that AG had spent nearly $1.2 million on repairs to the CSC between 2005 and 2015. Because the "emergency" issues had not been addressed prior to the application to sell the CSC, the question of whether their operation and maintenance practices are prudent was raised. To that end, the Commission assigned little weight to the $4.3 million capital spending forecast.

Finally, the reasonableness of the claim that AG would require $1.3 million for upgrades to the seven existing services centres in order to absorb the additional staff was called into doubt. Since AG claimed that the existing space was not currently under-utilized, the Commission determined that future growth prospects rendered their forecast for upgrades too conservative.

Due to AG's failure to provide sufficient evidence to satisfy the test of no harm to utility customers, the Commission denied the application for the proposed disposition. This decision is a clear victory for The City of Calgary, as it alleviates concerns over deterioration in service quality, as well as any potential upward rate risk as a result of the disposition.

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The AUC decision is important because it sets out parameters for a utility to demonstrate that asset sales will not be detrimental to ratepayers. The decision means that while the utilities have clear ownership of the capital assets in their rate base, they do not have an unfettered right to sell those assets.

Stakeholder Engagement, Research and Communication
Not applicable.

Strategic Alignment
This report is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

Social, Environmental, Economic (External)
This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line Policy Framework. No implications are identified.

Financial Capacity
Current and Future Operating Budget:
This report does not propose a decision and there is no direct budget or business plan implication.

Current and Future Capital Budget:
There are no budget or business plan implications arising from this report.

Risk Assessment
No specific risks are associated with this report

REASON(S) FOR RECOMMENDATION(S):
This report provides information to GPT Committee members to assist them in their understanding of regulatory issues that affect The City's interests.

ATTACHMENT(S)
None.