## SUMMARY OF THE ALBERTA UTILIITIES COMMISSION'S GENERIC COST OF CAPITAL - DECISION 2191-D01-2015

### EXECUTIVE SUMMARY

This report summarizes Alberta Utility Commission's (AUC) Decision 2191-D01-2015 regarding the 2013 Generic Cost of Capital (GCOC) and The City's intervention in the regulatory proceeding.

### 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 requests decision reports on regulatory proceedings where The City has participated as intervener.

### BACKGROUND

The decision sets out the AUC's approved Return on Equity (ROE) for all of Alberta's regulated utilities for the years 2013, 2014, and 2015. It also sets out equity ratios (or the capital structure) for each of the regulated utilities. The utilities primarily affected by the proceeding are AltaGas Utilities Inc., AltaLink Management Ltd., ATCO Utilities, ENMAX Power Corporation, EPCOR Utilities Inc. and Fortis Alberta Inc., (collectively the Alberta Utilities).

For many years, the ROE and equity ratios were determined for each utility individually at their General Rate Application proceedings. In 2002, AUC's predecessor, the Alberta Energy Utilities Board, held a generic hearing to develop a standardized Generic Cost of Capital (GCOC) for the Alberta Utilities. The process has evolved over the years and Generic Cost of Capital proceedings have resulted in lower regulatory costs.

In a 2011 decision, the AUC set the approved return on equity for Commission regulated utilities at 8.75 per cent on a final basis for 2011 and 2012, and on an interim basis for 2013.

The utility equity ratios are also an important determinant of utility revenue requirements. Debt financing is less expensive than equity so customers generally prefer a low equity ratio (i.e. less equity and more debt in the capital structure). Higher equity ratios are usually needed if business risk has increased.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

The return on equity for utilities is generally determined by the degree of risk inherent in the utilities' business and the ROE available to other Canadian utilities of comparable business risk. The utilities applied for an increase to their ROE based on a perceived increase in risk resulting from the implementation of Performance Based Regulation (PBR) and the AUC decision on Utility Asset Disposition. The utilities' expert witness recommended that the AUC award an ROE of 9.9%.

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### The City's Interest is the Generic Cost of Capital Proceeding

The City is a very large consumer of utility services and it is in The City's interest to have energy utility services provided at the lowest rate compatible with reliable service. Overall utility cost is also a significant determinant of a city's economic competitiveness and affects Calgary's ability to attract business and investment.

### Calgary's Participation in the Hearing

Calgary partnered with the Canadian Association of Petroleum Producers (CAPP) to jointly retain Dr. Laurence Booth, the Finance Chair of the University of Toronto's Rotman School of Business. Dr. Booth filed evidence on ATCO Pipeline for CAPP and ATCO Gas for Calgary. Dr. Booth's evidence was referred to by the AUC in their decision.

Dr. Booth stated that four other Canadian gas utilities that are on regulatory regimes similar to Alberta's PBR have not suffered any increase in risk. Mr. Booth recommended a ROE of 7.5%.

The appropriate level of ROE was also affected by the AUC's generic Utility Asset Disposition policy which focussed on the Supreme Court of Canada's (SCC) "Stores Block decision". In 2002, ATCO sold their Stores Block facility in Calgary and, at the SCC, ATCO successfully argued that when an asset is "no longer used or useful" for providing utility service it can be removed from rate base. The utility, who owns the asset, should keep all the profits or losses from asset sales. Before the Stores Block decision, the utility and customers generally shared the profit or losses resulting from asset sales.

As part of the GCOC hearing, the AUC reviewed the regulatory impact of the Slave Lake Fire on ATCO Electric to consider what, if any, adjustment should be made to the GCOC ROE. Based upon the SCC's Stores Block decision, the AUC stated that ATCO Electric assets in Slave Lake were no longer "used or useful" and were to be removed from the rate base and that ATCO Electric would have to absorb the loss.

### AUC Findings

#### Summary of AUC Decision 2191-D01-2015

1. The AUC ruled that asset disposition as presented in the Slave Lake fire portion of the GCOC decision did not increase utility risk. Therefore, the utilities will receive no built in risk premium for asset ownership risk.
2. The utilities were denied any increase in their ROE due to the AUC's adoption of PBR.
3. The AUC will not adopt an annual ROE adjustment formula at this time.
4. **The final approved ROE for 2013, 2014, and 2015 is set at 8.3 per cent, a reduction from the previously approved 8.75%.**
5. The final approved deemed equity ratios for the Alberta Utilities for 2013, 2014 and 2015 are as set out in the table below.
6. The ROE, and deemed equity ratios set out in the table below are approved on an interim basis for 2016, and for each subsequent year thereafter, unless otherwise directed by the AUC.
7. The Alberta Utilities are to apply to adjust their rates to implement the findings of this decision.

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**Approved Equity Ratios for the Alberta Utilities**

| | Last Approved | 2013-2015 Approved | Change in Approved Common Equity Ratio |
|---|---|---|---|
| | (%) | (%) | (%) |
| **Electric and gas transmission** | | | |
| ATCO Electric (transmission) | 37 | 36 | -1 |
| AltaLink | 37 | 36 | -1 |
| ENMAX (transmission) | 37 | 36 | -1 |
| EPCOR (transmission) | 37 | 36 | -1 |
| Red Deer | 37 | 36 | -1 |
| Lethbridge | 37 | 36 | -1 |
| TransAlta | 36 | 36 | 0 |
| ATCO Pipelines | 38 | 37 | -1 |
| **Electric and gas distribution** | | | |
| ATCO Electric (distribution) | 39 | 38 | -1 |
| ENMAX (distribution) | 41 | 40 | -1 |
| EPCOR (distribution) | 41 | 40 | -1 |
| ATCO Gas | 39 | 38 | -1 |
| Fortis Alberta | 41 | 40 | -1 |
| AltaGas | 43 | 42 | -1 |

**Current Legal Status**

The Alberta Utilities have filed for leave to appeal the AUC Generic Cost of Capital decision to the Alberta Court of Appeal.

### Stakeholder Engagement, Research and Communication

N/A

### 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.

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

**Risk Assessment**
There are no specific risks associated with this report.

**REASON(S) FOR RECOMMENDATION(S):**
This report provides information to GPT Committee members on the AUC 2013 Generic Cost of Capital decision to assist them in their understanding of regulatory issues that affect The City's interests.