



AUC

Alberta Utilities Commission

ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.)

2011 Pension Common Matters Compliance Filing

June 14, 2012



The Alberta Utilities Commission

Decision 2012-166: ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.)

2011 Pension Common Matters Compliance Filing

Application No. 1607949

Proceeding ID No. 1599

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1 Introduction

1. On December 1, 2011 ATCO Gas (AG), ATCO Pipelines (AP) and ATCO Electric Ltd. (AE), collectively acting as ATCO Utilities, filed a 2011 Pension Common Matters Compliance Filing (application) with the Alberta Utilities Commission (AUC or Commission) in accordance with the directions set out in Decision [2011-391](#).¹

2. Statements of intent to participate (SIPs) were received from the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA) by the intervention deadline of December 19, 2011.

3. On December 29, 2011 the Commission requested that ATCO Utilities respond to a number of preliminary information requests, to which ATCO Utilities replied on January 16, 2012.

4. Additional information requests were submitted by the Commission and the UCA on January 23, 2012. ATCO Utilities responded to these requests on February 6, 2012.

5. The Commission also requested comments from parties on the need to file evidence in this proceeding. The UCA and the CCA responded on February 9, 2012, indicating that there was no need for further evidentiary process.

6. On February 17, 2012, the UCA filed a letter indicating that it did not object to the compliance filing application.

7. On February 24, 2012, ATCO Utilities filed a letter requesting the Commission to proceed to a decision because no other party had filed argument and accordingly there was no need to submit a reply argument.

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 that matter.

¹ Decision 2011-391: ATCO Utilities (ATCO Gas, ATCO Pipelines (divisions of ATCO Gas and Pipelines Ltd.), and ATCO Electric Ltd.), 2011 Pension Common Matters, Application No. 1606850, Proceeding ID No. 999, September 27, 2011.

2 Background

9. ATCO Utilities participated, with other affiliated companies, in The Retirement Plan for Employees of Canadian Utilities Limited and Participating Companies (the Pension Plan). The Pension Plan is administered by Canadian Utilities Limited (CUL), which exercises its fiduciary responsibilities through a Management Pension Committee. The Pension Plan has two components operating under a single plan: defined benefit (DB Plan) and defined contribution (DC Plan).² The DB Plan has been closed to new employees since 1997.³ The Pension Plan is subject to the *Employment Pension Plans Act*, RSA 2000, c. E-8.

10. The DB Plan provides benefits based on a formula setting out how the employee's monthly pension will be calculated at retirement and, for purposes of funding, is subject to actuarial calculations, which must be filed periodically with the Superintendent of Pensions for Alberta. The DC Plan funding is based on specified employer and employee contribution rates.

11. On April 30, 2010, Decision 2010-189 was issued in respect of ATCO Utilities' Pension Common Matters Application, Proceeding ID No. 226. The decision examined the creation of a deferral account for the special payments required in respect of the unfunded liability of the DB Plan and directed that further information be provided on the proposal. ATCO Utilities was directed to prepare a 2011 Pension Common Matters Application (2011 pension application) to address the use of discretion with respect to the annual cost of living adjustment (COLA) provision in determining the amount of DB Plan pension costs to be included in revenue requirement.

12. On September 27, 2011, the Commission issued Decision 2011-391 with respect to its findings and directions regarding the 2011 pension application pursuant to directions set out in Decision 2010-189. Among other matters decided, the Commission determined the following with respect to the COLA:

92. Based on the above considerations and analysis and subject to the directions below, the Commission finds that until the Commission otherwise directs, 50 per cent of Canada CPI up to the three per cent maximum permitted by the DB Plan represents a reasonable level for setting the COLA amount for the purposes of determining the pension cost amounts for regulatory purposes for all employees, including both retirees and active employees, which are components of revenue requirements or capital amounts for each of the ATCO Utilities.⁴

93. ...the Commission does not consider it appropriate to implement a change for regulatory purposes to the calculation of the COLA adjustment prior to January 1, 2012.⁵

13. Decision 2011-391 also directed ATCO Utilities to submit a compliance filing by November 30, 2011.

² Decision 2010-189: ATCO Utilities, Pension Common Matters, Application No.1605254, Proceeding ID. 226, April 30, 2010, Section 2.1, paragraph 7, page 2.

³ Decision 2011-391, paragraph 7 page 2.

⁴ Decision 2011-391, paragraph 92, page 21.

⁵ Decision 2011-391, paragraph 93, page 21.

14. ATCO Utilities filed a notice of motion for leave to appeal Decision 2011-391 on October 21, 2011. On November 2, 2011, ATCO Utilities filed an application for a review and variance (R&V application) of Decision 2011-391, which was given Proceeding ID No. 1556. On November 25, 2011, ATCO Utilities filed an application to stay Decision 2011-391 in the R&V application (stay application).

15. This compliance filing application, related to Decision 2011-391, was submitted on December 1, 2011. The application provides for adjustments to the respective ATCO Utilities 2012 revenue requirements in regard to the COLA adjustments directed by Decision 2011-391 for each of AE, AG and AP. In addition, the application requests finalization of pension revenue requirement amounts in substitution for current placeholders for the years 2010, 2011 and 2012. ATCO Utilities also provided, without prejudice, its proposed treatment for changes to the respective special payment deferral account reconciliation applications for 2013 and each year thereafter for the COLA to 50 per cent of the consumer price index (CPI) up to a maximum of three per cent.⁶ The filing was made without prejudice to the R&V application and to its leave to appeal application.

16. The currently approved pension cost placeholders for each utility are identified in the table below:

Table 1. Current pension cost placeholder amounts⁷

	2010	2011	2012
	(\$ millions)		
ATCO Electric			
DB current service cost	11.10	11.10	11.10
DB special payment *	5.30	5.30	5.30
DC service cost	4.00	7.50	8.30
Total pension cost/placeholder	20.40	23.90	24.70
ATCO Gas			
DB current service cost	14.85	14.85	14.85
DB special payment *	7.15	7.15	7.15
DC service cost	5.20	6.50	7.30
Total pension cost/placeholder	27.20	28.50	29.30
ATCO Pipelines			
DB current service cost	3.00	3.00	3.00
DB special payment *	1.35	1.35	1.35
DC service cost	1.00	1.00	1.00
Total pension cost/placeholder	5.35	5.35	5.35
Total for ATCO Utilities	52.95	57.80	59.40

* DB special payment final placeholder amounts were approved in Decision 2011-391, paragraph 140.

⁶ Exhibit 3, application, response to Direction 2, page 2.

⁷ Decision 2011-391, paragraph 140, page 33.

17. On December 2, 2011, ATCO Utilities submitted a letter in the current proceeding requesting that the Commission suspend the compliance filing process related to Decision 2011-391, until the Commission rendered a decision in relation to the R&V application and the stay application filed on November 25, 2011 as part of Proceeding ID No. 1556.
18. On December 20, 2011, the Commission issued a ruling denying the stay application in Proceeding ID No. 1556.
19. On December 29, 2011, the Commission issued a ruling in this proceeding denying the requested suspension of the process for the compliance application.
20. On March 13, 2012, the Commission issued Bulletin [2012-03](#),⁸ in response to a letter from the Minister of Energy dated March 8, 2012 regarding current electricity rates and charges including rate riders to collect deferred balances, requesting “that the AUC ensure these rates or charges do not exceed their current levels.” The bulletin described the Commission’s proposed approach to the Minister’s letter and invited comments from affected parties. The request of the Minister of Energy could potentially impact this proceeding insofar as it might relate to potential rate increases by AE.
21. Comments on Bulletin 2012-03 were received from the UCA on March 19, 2012. The CCA did not file any comments on the bulletin on this proceeding, however, did file comments with the AUC on a general basis on March 16, 2012. The Commission considers that the close of record for this proceeding occurred on March 19, 2012.
22. On March 22, 2012 the Commission issued Decision [2012-077](#)⁹ which denied the ATCO Utilities R&V application of Decision 2011-391.

3 Commission directions

3.1 Direction 1 – use of consistent assumptions between valuations and applications

23. In Decision 2011-391 ATCO Utilities was directed as follows:

18. For purposes of the 2011 pension application, the Commission accepts ATCO Utilities’ explanation that incurring the cost to incorporate the consistent retirement assumptions was not justified given the small amount of the increase to revenue requirement that would have resulted. The Commission notes ATCO Utilities’ confirmation that the retirement assumptions have been discussed with Mercer with regard to preparation of future valuations. The Commission directs ATCO Utilities to use assumptions, including pensionable earnings data that are consistent with the information used in the Mercer actuarial evaluations for each of the ATCO Utilities in all future valuations and pension funding applications.

⁸ Bulletin 2012-03, Government of Alberta request regarding electricity rates, March 13, 2012.

⁹ Decision 2012-077: ATCO Utilities (ATCO Gas, ATCO Pipelines, and ATCO Electric Ltd.) Decision on Request for Review and Variance of AUC Decision 2011-391, Application No. 1607856, Proceeding ID No. 1556, March 22, 2012.

24. ATCO Utilities indicated that this matter has been discussed with Mercer (Canada) Limited (Mercer), the actuary for the pension plan to ensure that ATCO Utilities' retirement assumptions are used for the next actuarial valuation.¹⁰

25. In response to UCA-AU-8,¹¹ ATCO Utilities submitted that it had reviewed the Commission's directions with Mercer and each of the ATCO Utilities accepted and agreed to implement the direction.

26. The Commission is satisfied that ATCO Utilities has complied with Direction 1.

3.2 Direction 2 – cost of living adjustment

27. The Commission issued the following direction to ATCO Utilities:

96. The Commission directs that the COLA amounts included in the annual pension costs of each of the ATCO Utilities for regulatory purposes for 2012 onwards be based on 50 per cent of Canada annual CPI to a maximum of three per cent. This approved level of COLA shall be used for all calculations of all future pension costs used for regulatory purposes beginning with 2012 onwards, subject to the exception described below with respect to the 2012 special payments, for both retired and active employees until such time as the Commission otherwise directs.

28. In an information request, the Commission asked that ATCO Utilities provide Excel spreadsheets showing all calculations and supporting information used to calculate the adjustments resulting from a COLA reduction to 50 per cent of Canada annual CPI to a maximum of 3 per cent. In response, ATCO Utilities stated that Excel spreadsheets showing calculations and supporting information could not be provided as the software used by Mercer is proprietary. ATCO Utilities indicated, however, that Mercer had prepared its calculations of pension costs on a consistent basis before and after the directed COLA adjustment.¹²

29. ATCO Utilities stated that it compared the Mercer calculated DB current service cost using the COLA assumption at 50 percent of CPI to a maximum of three per cent to the originally calculated Mercer amount using the COLA assumption of 100 per cent of CPI to a maximum of three per cent.¹³ The resulting difference was then split between operating and maintenance (O&M) and capital using the accepted allocation methodology. Interveners did not address ATCO Utilities' compliance with this direction.

30. Based on ATCO Utilities' explanation of how the revised pension amounts to be included in revenue requirement resulting from a COLA reduction to 50 per cent of Canada annual CPI up to a three per cent maximum were calculated, the Commission finds the resulting adjustment calculated by Mercer to be reasonable.

31. Accordingly, the Commission finds that ATCO Utilities has complied with Direction 2.

¹⁰ Exhibit 3, application, response to Direction 1, page 2.

¹¹ Exhibit 16.01, response to UCA-AU-8.

¹² Exhibit 15.01, response to AUC-AU-8(b).

¹³ Exhibit 12.01, response to AUC-AU-1.

3.3 Direction 3 – COLA and DB pension cost adjustment

32. The Commission issued the following direction to ATCO Utilities:

98. The Commission further directs ATCO Utilities to provide the changes to each of their capital and revenue requirements resulting from use of a COLA adjustment based on 50 per cent of Canada CPI to a maximum of three per cent for regulatory purposes for use on 2012 pension costs onwards for allowed pension current service cost amounts.

33. In response to the direction, ATCO Utilities calculated the 2012 COLA adjustment using 50 per cent of the 2.25 per cent inflation rate assumption for a total 2012 revenue requirement reduction of \$4.2 million.¹⁴

34. ATCO Utilities provided the following summary of the reductions in the placeholder amounts for DB current service pension cost amounts in the respective 2012 revenue requirements, split between O&M and capital resulting from use of a COLA adjustment based on 50 per cent of Canada annual CPI to a maximum of three per cent for regulatory purposes.¹⁵

Table 2. 2012 current service cost reduction¹⁶

	O&M	Capital component	Revenue requirement
	(\$ millions)		
ATCO Electric Ltd.	0.8	0.8	1.6
ATCO Gas	1.3	0.9	2.2
ATCO Pipelines	0.25	0.15	0.4
	Total		\$4.2

35. ATCO Utilities explained that the capital component of the COLA adjustment also required an adjustment to take into account the related income tax effects, which would impact the revenue requirement for 2012. ATCO Utilities provided the following table in an information response identifying its total 2012 pension costs, adjusted for the directed COLA reduction, net of income tax effects, resulting from use of the approved COLA adjustment based on 50 per cent of Canada CPI to a maximum of three per cent for regulatory purposes.¹⁷ The table was calculated on the assumption that the capital portion of the pension cost is being collected as cash.¹⁸

¹⁴ Exhibit 3, application, response to Direction 3, page 3.

¹⁵ Exhibit 12.01, response to AUC-AU-3(b).

¹⁶ Exhibit 3, application, response to Direction 3, page 3.

¹⁷ Exhibit 15.01, response to AUC-AU-8(a).

¹⁸ Exhibit 12.01, response to AUC-AU-1(a-b).

Table 3. Forecast 2012 pension cost¹⁹

	ATCO Electric Ltd.	ATCO Gas	ATCO Pipelines	Non- regulated	Total
	(\$ millions)				
DB current service cost at 100% COLA	11.10	14.85	3.00	7.25	36.20
Net reduction to COLA*	1.4	1.9	0.35		3.65
DB current service cost using 50% COLA	9.50	12.65	2.60	7.25	32.00
DB special payment	5.30	7.15	1.35	2.60	16.40
DC service cost	8.30	7.30	1.0	NA	NA
Total	23.10	27.10	5.00		48.40

* Reduction to COLA as calculated in AUC-AU-1(b).

36. ATCO Utilities stated that the revised revenue requirement changes resulting from the COLA reduction for 2012 as shown in tables 2 and 3 above were based on an assumption that the capital component of pension costs is collected on a cash basis.²⁰ The Commission recognizes that, as part of this application, ATCO Utilities has proposed that the capital component of pension costs no longer be collected on a cash basis.

37. The Commission considers that further refinement of the placeholder amounts is required as a result of ATCO Utilities proposal to no longer collect the capital component of pension costs on a cash basis.²¹ The related impacts are further addressed below beginning at paragraph 70 of this decision as part of Direction 10.

3.4 Direction 4 – special payment deferral account reconciliation

38. The Commission issued the following direction to ATCO Utilities:

100. The Commission considers that it is not apparent that it would be in the best interest of ATCO Utilities, ratepayers or pensioners to implement a change to the COLA calculation with respect to 2012 special payments given the uncertain pension funding impacts that may result from a new actuarial valuation and report. Further, the Commission notes that any potential under or over payment with regard to special payments for 2012 within the deferral account would effectively increase or reduce the ongoing liability of the pension fund. Because a new plan must be filed with the Superintendent of Pensions by January 1, 2013, any reductions that may result from the reduction in COLA to 50 per cent of CPI will be captured in ongoing special payments subsequently set by the Superintendent of Pensions. Special payment adjustments could also evolve due to other changes occasioned by the actuarial assumptions. The Commission will require that the reduced COLA calculation be made for regulatory purposes in calculating the special payments allocated to ATCO Utilities commencing January 1, 2013. Accordingly, in the event that CUL and ATCO Utilities elect not to reflect the regulatory reduction required by this decision to the COLA provision in the assumptions used in preparing the actuarial report filed with the Superintendent of Pensions, each of the ATCO Utilities are directed to make the necessary adjustment in their respective special payment deferral account reconciliation applications for 2013 and for each year thereafter until otherwise ordered by the Commission.

¹⁹ Exhibit 15.01, response to AUC-AU-8.

²⁰ Exhibit 12.01, response to AUC-AU-1(a-b).

²¹ Exhibit 15.01, response to AUC-AU-10.

39. ATCO Utilities indicated that for any actuarial valuation report filed with the Superintendent of Pensions, the COLA calculation will be based on 100 per cent of the CPI to a maximum of three per cent. ATCO Utilities stated that Canadian Utilities Limited (CUL) will continue to fund the plan based on legal requirements.²² However, ATCO Utilities will, commencing in 2013 and for each year thereafter, adjust the respective special payment deferral account reconciliation applications for the reduction of the COLA to 50 per cent of CPI to a maximum of three per cent for regulatory purposes.²³

40. The Commission is satisfied that ATCO Utilities has complied with Direction 4.

3.5 Direction 5 – DB Plan and COLA for regulatory purposes

41. The Commission issued the following direction to ATCO Utilities:

101. As part of the compliance filing for the current decision, ATCO Utilities is directed to inform the Commission whether CUL intends to continue its past administrative practice of granting the maximum allowable COLA under the existing terms of the DB Plan or whether it intends to amend the COLA administrative practice of the DB Plan to align with the COLA approved for regulatory purposes. If ATCO Utilities intends to continue its past administrative practice of granting the COLA at 100 per cent of CPI up to three per cent maximum, the Commission directs ATCO Utilities, commencing January 1, 2012 to exclude from the head office component of revenue requirement of ATCO Utilities, all affiliate allocations or charges included within revenue requirement, and from all other revenue requirement components, all amounts representing an allocation of utility, head office or affiliate pension expense which can be attributed to a COLA set higher than 50 per cent of CPI up to a maximum of three per cent, subject to the exception described above with respect to the 2012 special payments.

42. ATCO Utilities responded that it reflects the recommendations of the pension plan administrator, as per the provisions of the pension plan, in the revenue requirement of the ATCO Utilities as these constitute reasonably and prudently incurred costs. ATCO Utilities further stated that, without prejudice to its R&V application and leave to appeal of Decision 2011-391, the difference between the pension plan administrator's determined COLA and the regulatory approved COLA will be excluded from revenue requirements commencing January 1, 2012, subject to the exception with respect to the 2012 special payments.²⁴

43. Further, ATCO Utilities indicated that the head office component of revenue requirement was specifically taken into account in recalculating pension costs to reflect the directed reduction in the COLA.²⁵

44. The Commission is satisfied that ATCO Utilities has complied with Direction 5.

²² Exhibit 3, application, response to Direction 4, page 4.

²³ Ibid.

²⁴ Exhibit 3, application, response to Direction 5, page 4.

²⁵ Exhibit 16.01, response to UCA-AU-2.

3.6 Direction 6 – administrative practice of granting COLA at 100 per cent

45. The Commission issued the following direction to ATCO Utilities:

102. Further, if ATCO Utilities continues its past administrative practice of granting the COLA at 100 percent of CPI up to three per cent maximum, the Commission, subject to the exception described above with respect to the 2012 special payments, directs ATCO Utilities commencing January 1, 2012 onwards to exclude all incremental differences, and related compounding impacts on future years, between COLA awarded by CUL that exceeds the COLA level approved by the Commission for regulatory purposes. These incremental differences shall be excluded from the base used for calculating future period pension costs for regulatory purposes and no compounding impacts related to these incremental amounts shall be included in future years.

46. ATCO Utilities stated that incremental COLA pension costs above 50 per cent of CPI, along with compounding impacts, will be excluded from the base used for calculating future period pension costs for regulatory purposes.²⁶

47. The Commission is satisfied that ATCO Utilities has complied with Direction 6.

3.7 Direction 7 – actuarial valuation reports

48. The Commission issued the following direction to ATCO Utilities:

118. The Commission determination related to the COLA level approved for regulatory purposes for 2012 will not impact the actual special payment amounts allowed for purposes of the special payments deferral account unless a new actuarial report is filed and accepted by the Superintendent of Pensions. The Commission finds that the treatment and scope of the special payments deferral account shall be reviewed to evaluate the ongoing requirement for the account in conjunction with the submission of any updated or ongoing actuarial reports with the Superintendent of Pensions. For this reason, the Commission directs ATCO Utilities to submit all updated and ongoing actuarial valuation reports for approval by the Commission for regulatory purposes.

49. ATCO Utilities submitted that the next actuarial report will cover the period ending December 31, 2012 and will be submitted to the Superintendent of Pensions in June of 2013. Further, ATCO Utilities confirmed that all updated and ongoing valuation reports will be submitted to the Commission.²⁷

50. The Commission is satisfied that ATCO Utilities has complied with Direction 7.

3.8 Direction 8 – information to be provided in the compliance filing

51. The Commission issued the following direction to ATCO Utilities:

120. In the compliance filing to this decision each of the ATCO Utilities is directed for the years 2010, 2011 and 2012 to provide, to the extent available, details of the forecast special payment amounts used in the development of the existing pension cost placeholder amounts and the actual special payment amounts paid including information with respect to the allocation of the total special payment amounts, on both a forecasted

²⁶ Exhibit 3, application, response to Direction 6, page 5.

²⁷ Exhibit 3, application, response to Direction 7, page 5.

and actual basis, between the regulated and non-regulated entities. The details provided shall include, to the extent available:

- the total number of members in the DB Plan at the end of each year for each of the ATCO Utilities, with a separate total for ATCO non-regulated entities
- the total pensionable earnings for the DB Plan at the end of the year for each of the ATCO Utilities, with a separate total for ATCO non-regulated entities
- will quantify the movement of members in the DB Plan between each of the ATCO entities that participate in the Pension Plan for each year

52. In response to Direction 8, ATCO Utilities submitted that the 2010-2012 actual and forecast special payments are the same as the placeholders approved in Decision 2010-553²⁸ and provided in Table 5 of the application.²⁹

53. Based on the information from Decision 2010-553 and the response to AUC-AU-8, the Commission prepared the following table with respect to the total split between the regulated and non-regulated DB special payments for ease of reference.

Table 4. DB special payment: regulated vs. non-regulated split

	2010	2011	2012
	(\$ millions)		
ATCO Electric	5.30	5.30	5.30
ATCO Gas	7.15	7.15	7.15
ATCO Pipelines	1.35	1.35	1.35
Regulated DB special payment	13.80	13.80	13.80
Non-regulated DB special payment	2.60	2.60	2.60
Total DB special payment	16.40	16.40	16.40

54. Further in response to Direction 8, the following tables were provided for each of the ATCO Utilities:³⁰

Table 5. ATCO Electric DB Plan information 2010-2012

ATCO Electric (\$000's)	2010 forecast	2010 actual	2011 forecast	2012 forecast
# DB employees	451	467	426	393
DB employees moved				
Gas to Electric	NA	4	NA	NA
Power to Electric	NA	5	NA	NA
North of 60 to Electric	NA	5	NA	NA
Pensionable earnings DB Plan	\$ 44,603	\$ 44,353	\$ 48,000	\$ 45,600

²⁸ Decision 2010-553: ATCO Utilities, Compliance Filing Pursuant to Decision 2010-189, ATCO Utilities Pension Common Matters, Application No. 1606289, Proceeding ID. 693, December 1, 2010.

²⁹ Exhibit 3, application, response to Direction 8, page 6.

³⁰ Exhibit 12.01, response to AUC-AU-6, Revised Attachment 2.

Table 6. ATCO Gas DB Plan information 2010-2012

ATCO Gas (\$000's)	2010 forecast	2010 actual	2011 forecast	2012 forecast
# DB Employees	825	825	769	705
DB employees moved				
Gas to Electric	NA	4	NA	NA
Gas to Pipelines	NA	1	NA	NA
Gas to non-regulated	NA	2	NA	NA
Pensionable earnings DB Plan	\$ 60,074	\$ 66,158	\$ 57,927	\$ 51,602

Table 7. ATCO Pipelines DB Plan information 2010-2012

ATCO Pipelines (\$000's)	2010 forecast	2010 actual	2011 forecast	2012 forecast
# DB Employees	138	132	NA	NA
DB employees moved-from Gas	NA	1	NA	NA
Pensionable earnings DB Plan	\$ 12,251	\$ 12,024	\$12,251	\$12,000

55. ATCO Utilities stated that DB forecasts for AP for the 2011 and 2012 period were not available as these amounts were not prepared pursuant to the negotiated settlement agreement.³¹

Table 8. ATCO non-regulated DB Plan information 2010-2012

ATCO non-regulated (\$000's)	2010 forecast	2010 actual	2011 forecast	2012 forecast
#DB employees	NA	329	NA	NA
Pensionable earnings DB Plan	\$29,719	\$29,535	NA	NA

56. The Commission has reviewed the information provided by ATCO Utilities in response to this direction and is satisfied that ATCO Utilities has complied with Direction 8. In Decision 2011-391, the Commission accepted the allocation of the special payment amount to each entity based on the future liabilities determined on the basis of both active and retired employees.³² Direction 8, however, did not require detailed information with respect to the calculation of future liabilities and the related allocation of the special payment amount.

57. The Commission considers that adequate information with respect to the calculation of future liabilities by employee for each regulated entity, and non-regulated entities collectively, and the allocation of the special payment amount will be important to ensure an understanding of future applications related to the clearing of the special payment deferral account. Accordingly, the Commission directs ATCO Utilities, in addition to the information directed in paragraph 120 of Decision 2011-391, to provide all supporting information with regard to the calculation of future liabilities by employee for each regulated entity, and non-regulated entities collectively, and the allocation of the special payment amount. This information shall be included with all future applications which involve clearing of balances in the special payment deferral account.

³¹ Exhibit 12.01, response to AUC-AU-7(a).

³² Decision 2011-391, paragraph 117, page 27.

3.9 Direction 9 – clearing of special payment deferral account

58. The Commission issued the following direction to ATCO Utilities:

121. With regard to the clearing of the special payment deferral account, the Commission directs ATCO Utilities to utilize, after a decision on the compliance filing to this decision is rendered, the existing process followed by each of the ATCO Utilities to address other deferral account balances. AE, for example, shall use its annual Rider G application to clear accumulated deferral account balances. As part of the submissions for these filings, each of the ATCO Utilities is directed to provide a reconciliation of the special payment amounts approved for inclusion in revenue requirement and the special payment amounts actually paid in respect of a particular test year and shall provide information similar to the information requested in paragraph 120 above in respect of the compliance filing.

59. In its response to this direction, ATCO Utilities stated that AG has included a change in the reconciliation of its deferral account balances as part of its performance-based rates (PBR) application filed in Proceeding ID No. 566³³ to be effective January 1, 2013. Subject to this potential change by AG, ATCO Utilities will continue to utilize existing processes to address any balances in the pension special payment deferral accounts. Further, ATCO Utilities confirmed that the submissions will include information similar to that requested in paragraph 120 from Decision 2011-391.³⁴

60. ATCO Utilities stated that the deferral account treatment is in accordance with Decision 2010-189, whereby any difference between the forecast and actual special funding payments are recorded to the deferral account.³⁵

61. Decision 2010-189 approved a special payment deferral account for ATCO Utilities. The operation and true up mechanics of the deferral account were subject to the compliance filing. In Decision 2010-553, the Commission directed ATCO Utilities to revise its deferral account proposal and submit an amended proposal. In Decision 2011-391, the Commission further directed each of the ATCO Utilities to provide specific details with respect to clearing the special payment deferral account.

62. Based on the response provided by ATCO Utilities with respect to the clearing of the special payment deferral account, the Commission is satisfied that ATCO Utilities has complied with Direction 9.

3.10 Direction 10 – pension cost placeholders

63. The Commission issued the following direction to ATCO Utilities:

137. The Commission finds the collection of both the capital and operating portion of pension funding for AP, combined with the ability to earn a return in rate base on that capital due to the absence of the offsetting no-cost capital to be unfair to ratepayers. For this reason, the Commission directs AP to make an adjustment to its pension cost placeholders for 2010-2012 in the compliance filing to reflect the impact of recording no-cost capital as an offset for 2010-2012 where pension funding under the cash basis

³³ Performance-Based Regulation (PBR), Proceeding ID No. 566.

³⁴ Exhibit 3, application, response to Direction 9, page 6.

³⁵ Exhibit 16.01, response to UCA-AU-7(a).

contains a capital component. As pension funding resumes in 2010, due to the elimination of the pension surplus, the Commission directs ATCO Utilities to ensure this no-cost capital treatment is consistently applied for 2010 onwards for each of the ATCO Utilities.

64. ATCO Utilities provided a summary comparison table showing that using either a necessary working capital approach or a no-cost capital approach for AP to adjust for the collection of the capital component of pension costs on a cash basis has the same impact on revenue requirement.³⁶

65. AP currently collects the capital component of pension costs on a cash basis and uses a necessary working capital adjustment as an offset mechanism rather than a no cost capital adjustment to reflect cash impacts for regulatory purposes.³⁷ ATCO Utilities confirmed that the capital portion collected through revenue requirement under the cash basis has been adjusted to provide an offsetting credit to ratepayers.³⁸ AP requested that the Commission allow AP to change the treatment of the pension funding capital component collected through revenue requirement to the same manner as AP treats its other capital components collected through revenue requirement.

66. Further, ATCO Utilities stated that AG has requested that the capital component of pension cost no longer be collected as cash.³⁹ AG proposed to collect the capitalized portion of pension cost as part of its invested capital in order to simplify the associated accounting treatment otherwise required to offset the collection of depreciation, return and income tax.

67. ATCO Utilities proposed that the capitalized portion of AG's pension cost would remain in mid year rate base and would no longer have a no cost capital adjustment removing it from invested capital.⁴⁰

68. In response to information request AUC-AU-10(b), ATCO Utilities requested the Commission to allow AE to collect capitalized pension costs in the same manner as was approved for AG, effective January 1, 2011.⁴¹ Further, AE provided a "Schedule of refund of capitalized pension collected" showing the impact on revenue requirement resulting from no longer collecting the capital portion of the pension cost on a cash basis for the years 2011 and 2012.⁴²

69. Intervenors did not object to ATCO Utilities' request to no longer fund the capital component of pension costs on a cash basis.

70. The Commission approves ATCO Utilities' request to no longer collect the capital component of the pension cost on a cash basis and to fund it as part of each utility's invested capital. However, the Commission recognizes that not collecting the capital component of pension cost on a cash basis will impact existing pension cost placeholders for 2010, 2011 and

³⁶ Exhibit 15.01, response to AUC-AU-12, Attachment.

³⁷ Exhibit 15.01, response to AUC-AU-12(a).

³⁸ Exhibit 15.01, response to AUC-AU-12(b).

³⁹ Proceeding ID No. 969, Exhibit 174, Schedule 1.6-A.

⁴⁰ Exhibit 15.01, response to AUC-AU-10(a).

⁴¹ Exhibit 15.01, response to AUC-AU-10(b).

⁴² Exhibit 12.01, response to AUC-AU-2(b), Attachment 2.

2012 for each of the ATCO Utilities. As such, the Commission requires further information in regard to the adjustment required to properly account for the change in treatment of the capital component of pension cost.

71. Accordingly, the Commission directs ATCO Utilities to complete and file, by way of a compliance filing to this decision, Table 9 below. Table 9 has been prepared by the Commission to include each utility and each year. The purpose of the table is to provide final amounts to be used in substitution of existing placeholders in revenue requirement. The table shall reflect all necessary changes with supporting detail, including changes to the treatment of its capital component of pension costs, the 2012 COLA reduction, and all income tax impacts. All assumptions shall be stated and supporting schedules shall be submitted for the calculation of each adjustment amount. ATCO Utilities should ensure that the treatment of the capital component of pension costs is consistently applied by each utility to existing placeholders unless there is a compelling reason not to do so. If a particular utility is only proposing to change the treatment of the capital component of pension cost for certain years, the Commission directs ATCO Utilities to identify how the associated accumulated no cost capital balances would be addressed.

Table 9. Revised placeholder amounts

	2010			2011			2012		
	AE	AG	AP	AE	AG	AP	AE	AG	AP
DB pension costs									
Current service costs									
Operating									
Capital									
Total									
Special payments									
Operating									
Capital									
Total									
DC pension costs									
Operating									
Capital									
Total									
Total DB current service costs									
Total DB special payments									
Total DC current service costs									
Gross capital portion to be refunded									
Adjustments									
Depreciation adjustment									
Return adjustment									
Income Tax adjustment									
Total adjustment to capital portion to be refunded									
Net refund of capital portion of pension cost									

3.11 Direction 11 – updated pension cost placeholders reflecting approved COLA level

72. The Commission issued the following direction to ATCO Utilities:

138. The Commission recognizes that its determination related to the COLA level approved for regulatory purposes will impact the pension cost placeholder amounts for the 2012 test year for each of the ATCO Utilities. As part of the compliance filing for the current decision, the Commission directs ATCO Utilities to update Table 5 shown above with the recalculated numbers which reflect the COLA level approved for 2012 for regulatory purposes. Further, the Commission directs each of the ATCO Utilities to update Table 4 above, which provides the operating expense vs. capital splits by each ATCO utility for the pension cost amounts.

73. ATCO Utilities provided Table 5 in its compliance filing (set out as Table 10 below) showing the 2010-2012 pension cost placeholder amounts updated to reflect the COLA level approved for 2012 for regulatory purposes.⁴³

Table 10. Updated pension cost placeholders for ATCO Utilities⁴⁴

	2010	2011	2012	
	(\$ millions)			
	Decision 2011-391	Decision 2011-391	Decision 2011-391	Updated COLA at 50% CPI
DB service cost				
ATCO Electric	11.10	11.10	11.10	9.50
ATCO Gas	14.85	14.85	14.85	12.65
ATCO Pipelines	3.00	3.00	3.00	2.60
DB service cost total	28.95	28.95	28.95	24.75
DB special payment *				
ATCO Electric	5.30	5.30	5.30	5.30
ATCO Gas	7.15	7.15	7.15	7.15
ATCO Pipelines	1.35	1.35	1.35	1.35
DB special payment total	13.80	13.80	13.80	13.80
DB cost total	42.75	42.75	42.75	38.55
DC service cost				
ATCO Electric	4.00	7.50	8.30	8.30
ATCO Gas	5.20	6.50	7.30	7.30
ATCO Pipelines	1.00	1.00	1.00	1.00
DC cost total	10.20	15.00	16.60	16.60
DB/DC pension cost	52.95	57.80	59.40	55.15

* DB special payment final placeholder amounts were approved in Decision 2011-391, paragraph 140.

74. The Commission notes that ATCO Utilities provided an update to Table 4 from Direction 4 of Decision 2011-391 with respect to a breakdown of pension costs between

⁴³ Exhibit 15.01, response to AUC-AU-6, Revised Attachment 2.

⁴⁴ Decision 2011-391, paragraphs 139-140, page 33.

operating expense and capital. However, as a result of ATCO Utilities' request to change the treatment of its funding for the capital component of pension cost discussed in Section 3.10 above, the Commission has directed ATCO Utilities to update Table 9 of this decision to include a breakdown of pension costs between operating expense and capital for the updated placeholder amounts.

3.12 Direction 12 – additional information

75. The Commission issued the following direction to ATCO Utilities:

142. The Commission requires further details to be provided to finalize portions of the proposed placeholders shown in Table 5 of Decision 2011-391 [now Table 10] above. ATCO Utilities is directed to provide the additional information set out below as part of the upcoming compliance filing related to this decision:

- (a) The Mercer letter provided with information response AUC-AU-1(a) states the following:

The funding report provides a rule for determining service cost as a percentage of capped earnings. The purpose of this rule is to provide an automatic adjustment to contributions if earnings are different from expected, which is particularly important for defined benefit provisions that are open to new members. Since Plan 1 only allows new members to participate in the defined contribution provision (i.e., the defined benefit provision is closed) and the active members are older, we are indifferent as to whether Canadian Utilities contributes the dollar amounts outlined in our report or applies the service cost rule to actual capped earnings in 2010.

The 38 per cent used to determine current service costs for 2010, 2011 and 2012 for ATCO Utilities appears to have been derived from Exhibit 59 provided in ATCO Utilities Pension Common Matters Proceeding, Proceeding ID No. 226, which is referenced in Decision 2010-189. The 2009 Actuarial Report prepared by Mercer shows the Employer's Contribution Rule to be 24.69 per cent.

In the compliance filing ATCO Utilities shall indicate the source, and provide the calculation of the 38 per cent for each of the ATCO Utilities by year for each of 2010, 2011 and 2012. Given that the 38 per cent indicated by Exhibit 59 preceded the 24.69 per cent used in the 2009 Actuarial Report, the compliance filing shall explain why 38 per cent should be used for 2010, 2011 and 2012 given that 2010 represented the only year specified in the Mercer letter. ATCO Utilities shall also explain what the service cost rule is that is referred to by Mercer in the above quote and discuss how it is used.

- (b) Table 5 shown above displays a significant increase in the DC service cost for ATCO Electric between 2010 and 2011 from \$4.0 million to \$7.5 million. ATCO Utilities shall provide an explanation in the compliance filing for the increase and show the calculation of both numbers in the compliance filing.

- (c) In the compliance filing ATCO Utilities shall explain what amounts and adjustments are included in ATCO Utilities/Mercer's calculations of pensionable earnings used for calculation of the placeholder and proposed final amounts for 2010, 2011 and 2012. Further ATCO Utilities shall explain the difference between capped earnings as used by Mercer and pensionable earnings as used by ATCO Utilities.
- (d) In the compliance filing each of the ATCO Utilities shall provide the following information for each of the years from 2009, 2010, 2011, and 2012 (for 2009 and 2010 provide both forecast and actual amounts):
- (i) gross salaries in \$ million
 - (ii) total FTE's at the end of each year
 - (iii) FTE additions in each year
 - (iv) pensionable earnings used for DB Plan
 - (v) pensionable earnings used for DC Plan
 - (vi) a reconciliation of the gross salaries and the pensionable earnings used for each of the DB and DC Plans by year for each of the ATCO Utilities

76. In response to Direction 12(a), ATCO Utilities explained that the 38 per cent derived from Exhibit 59 should not be used because it was calculated based on amounts that were not approved. Further, ATCO Utilities submitted that it is using pension cost amounts, consistent with the Mercer December 31, 2009 valuation report and in accordance with Decision 2010-553.⁴⁵

77. ATCO Utilities submitted that the 24.69 per cent is the service cost estimator which could be applied to forecast pensionable earnings to allocate current service pension costs as calculated by Mercer. However, ATCO Utilities stated that the AUC approved specific placeholder funding dollar amounts by company in Decision 2010-553. ATCO Utilities submitted that, if the 24.69 per cent of pensionable earnings was used as the pension cost allocator, the pension cost amount would be different than what was approved.⁴⁶

78. With respect to Direction 12(b), ATCO Utilities stated that the AE DC service costs increased due to increases in pensionable payroll resulting from the increase in the number of employees driven by large infrastructure projects started in 2009.⁴⁷

⁴⁵ Exhibit 3, application, response to Direction 12(a), page 9.

⁴⁶ Ibid.

⁴⁷ Exhibit 3, application, response to Direction 12(b), page 9.

79. ATCO Utilities submitted the following reconciliation with respect to the \$3.5 million increase to DC service costs for AE between 2010 and 2011:⁴⁸

Table 11. ATCO Electric DC service cost reconciliation

	(\$ millions)
2010 forecast DC pension cost	4.0
Higher number of employees	1.6
Higher salaries	1.7
Inflation	<u>0.2</u>
2011 forecast DC pension cost	<u>7.5</u>

80. ATCO Utilities explained that AE's 2010 pension cost forecast of \$4 million was based on 1,072 full-time equivalents (FTEs); however, in 2010, the actual number of FTEs was 1,193 and the actual pension cost was \$5.4 million. Further, ATCO Utilities noted that AE's 2011 forecast for DC pension costs of \$7.3 million was based on 1,321 FTEs.⁴⁹

81. In response to Direction 12(c), ATCO Utilities explained that the components of capped earnings used by Mercer are the same as ATCO Utilities pensionable earnings since they are provided to Mercer by ATCO Utilities.⁵⁰

82. The Commission notes that, in the 2011 forecast DC pension cost reconciliation shown above the total amount shown is \$7.5 million. In response to information request AUC-AU-4 (b), ATCO Utilities state that the DC pension cost is \$7.3 million. As a result, the Commission directs ATCO Utilities to confirm which amount should be used and reconcile that amount.

83. In response to Direction 12(d), ATCO Utilities provided the following summary tables:⁵¹

Table 12. Direction 12(d) summary tables for 2009-2012 forecast information with 2009 and 2010 actual results

ATCO Electric (\$000's)	2009 forecast	2009 actual	2010 forecast	2010 actual	2011 forecast	2012 forecast
Gross salaries	\$ 135,621	\$137,237	\$ 148,900	\$ 158,337	\$ 179,910	\$191,640
Total FTE's at the end of each year	1,471	1,454	1,523	1,660	1,747	1,785
DB Plan employees	486	487	451	467	426	393
DC Plan employees	984	967	1,072	1,193	1,321	1,392
FTE additions in each year	220	190	52	206	224	38
Pensionable earnings DB Plan	\$ 48,300	\$ 47,800	\$ 44,603	\$ 44,353	\$ 48,000	\$ 45,600
Pensionable earnings DC Plan	\$ 54,800	\$ 67,100	\$ 62,500	\$ 87,344	\$ 118,700	\$132,200

⁴⁸ Exhibit 12.01, response to AUC-AU-4(b).

⁴⁹ Ibid.

⁵⁰ Exhibit 3, application, response to Direction 12(c), page 9.

⁵¹ Exhibit 3, application, response to Direction 12(d), Attachment 3.

ATCO Gas (\$000's)	2009 forecast	2009 actual	2010 forecast	2010 actual	2011 forecast	2012 forecast
Gross salaries	\$ 168,656	\$158,153	\$ 158,233	\$ 163,699	\$ 182,565	\$190,269
Total FTE's at the end of each year	2,203	2,187	2,148	2,091	2,238	2,257
DB Plan employees	879	879	825	825	769	705
DC Plan employees	1,324	1,308	1,323	1,266	1,469	1,552
FTE additions in each year	(55)	(71)	(39)	(96)	90	19
Pensionable earnings DB Plan	\$ 68,900	\$ 68,440	\$ 60,074	\$ 66,158	\$ 57,927	\$ 51,602
Pensionable earnings DC Plan	\$ 74,700	\$ 77,150	\$ 86,000	\$ 81,316	\$ 107,921	\$121,456

ATCO Pipelines (\$000's)	2009 forecast	2009 actual	2010 forecast	2010 actual	2011 forecast	2012 forecast
Gross salaries	NA	\$ 32,651	NA	\$ 31,333	NA	NA
Total FTE's at the end of each year	NA	336	NA	329	NA	NA
DB Plan employees	154	154	138	132	NA	NA
DC Plan employees	NA	182	NA	197	NA	NA
FTE additions in each year	NA	(8)	NA	(7)	NA	NA
Pensionable earnings DB Plan	\$ 12,400	\$ 13,905	\$ 12,251	\$ 12,024	NA	NA
Pensionable earnings DC Plan	\$ 14,800	\$ 15,366	\$ 15,600	\$ 14,352	NA	NA

84. No party objected to ATCO Utilities' response to this direction.

85. The Commission has reviewed the information provided in response to Direction 12 and is satisfied that ATCO Utilities has complied with Direction 12, subject to the direction regarding reconciling the AE DC pension costs.

4 Order

86. It is hereby ordered that:

- (1) ATCO Utilities is directed to submit a compliance filing in accordance with the directions set out in this decision by August 15, 2012.

Dated on June 14, 2012.

The Alberta Utilities Commission

(original signed by)

Carolyn Dahl Rees
Vice-Chair

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Kay Holgate
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
ATCO Utilities (ATCO Gas (AG), ATCO Pipelines (AP) and ATCO Electric Ltd. (AE)) L. Keough K. Worton W. Wright B. Jones L. Kizuk J. Grattan J. Janow
Consumers' Coalition of Alberta (CCA) J. A. Wachowich A. P. Merani
The Office of the Utilities Consumer Advocate (UCA) C. R. McCreary S. Mattuli P. Johnston R. Bell

The Alberta Utilities Commission Commission Panel C. Dahl Rees, Vice-Chair M. Kolesar, Vice-Chair K. Holgate, Commission Member Commission Staff B. McNulty (Commission counsel) S. Danchuk B. Whyte D. Cherniwchan
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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. The Commission considers that adequate information with respect to the calculation of future liabilities by employee for each regulated entity, and non-regulated entities collectively, and the allocation of the special payment amount will be important to ensure an understanding of future applications related to the clearing of the special payment deferral account. Accordingly, the Commission directs ATCO Utilities, in addition to the information directed in paragraph 120 of Decision 2011-391, to provide all supporting information with regard to the calculation of future liabilities by employee for each regulated entity, and non-regulated entities collectively, and the allocation of the special payment amount. This information shall be included with all future applications which involve clearing of balances in the special payment deferral account. Paragraph 57
2. Accordingly, the Commission directs ATCO Utilities to complete and file, by way of a compliance filing to this decision, Table 9 below. Table 9 has been prepared by the Commission to include each utility and each year. The purpose of the table is to provide final amounts to be used in substitution of existing placeholders in revenue requirement. The table shall reflect all necessary changes with supporting detail, including changes to the treatment of its capital component of pension costs, the 2012 COLA reduction, and all income tax impacts. All assumptions shall be stated and supporting schedules shall be submitted for the calculation of each adjustment amount. ATCO Utilities should ensure that the treatment of the capital component of pension costs is consistently applied by each utility to existing placeholders unless there is a compelling reason not to do so. If a particular utility is only proposing to change the treatment of the capital component of pension cost for certain years, the Commission directs ATCO Utilities to identify how the associated accumulated no cost capital balances would be addressed. Paragraph 71
3. The Commission notes that, in the 2011 forecast DC pension cost reconciliation shown above the total amount shown is \$7.5 million. In response to information request AUC-AU-4 (b), ATCO Utilities state that the DC pension cost is \$7.3 million. As a result, the Commission directs ATCO Utilities to confirm which amount should be used and reconcile that amount. Paragraph 82