



**ATCO Utilities
(ATCO Gas, ATCO Pipelines (divisions of ATCO Gas and
Pipelines Ltd.) and ATCO Electric Ltd.)**

2011 Pension Common Matters Second Compliance Filing

December 7, 2012

The Alberta Utilities Commission

Decision 2012-331: ATCO Utilities (ATCO Gas, ATCO Pipelines (divisions of ATCO Gas and Pipelines Ltd.) and ATCO Electric Ltd.)

2011 Pension Common Matters Second Compliance Filing

Application No. 1608750

Proceeding ID No. 2078

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ATCO Utilities
(ATCO Gas, ATCO Pipelines (divisions of ATCO Gas and
Pipelines Ltd.) and ATCO Electric Ltd.)
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1 Introduction

1. On August 15, 2012, ATCO Gas (AG), ATCO Pipelines (AP) (divisions of ATCO Gas and Pipelines Ltd.) and ATCO Electric Ltd. (AE), collectively acting as ATCO Utilities, filed a compliance application (application) with the Alberta Utilities Commission (AUC or Commission) in accordance with the directions set out in Decision [2012-166](#).¹

2. Statements of intent to participate (SIPs) were received from ENMAX Power Corporation, the Consumers' Coalition of Alberta (CCA) and the Office of the Utilities Consumer Advocate (UCA) by the intervention deadline of August 30, 2012.

3. On August 31, 2012, the Commission set the process schedule for this written proceeding as follows:

Process step	Deadline
Information requests to ATCO Utilities	September 27, 2012
Responses from ATCO Utilities	October 11, 2012
Argument	October 25, 2012
Reply argument	November 1, 2012

4. The Commission considers that the close of record for this proceeding was November 1, 2012.

5. 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 2012-166: ATCO Utilities (ATCO Gas, ATCO Pipelines (divisions of ATCO Gas and Pipelines Ltd.), and ATCO Electric Ltd.), 2011 Pension Common Matters Compliance Filing, Application No. 1607949, Proceeding ID No. 1599, June 14, 2012.

2 Background

6. 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

7. 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 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.

8. On September 27, 2011, the Commission issued Decision [2011-391](#)³ with respect to its findings and directions regarding the 2011 pension common matters 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

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

9. 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 recorded as 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).

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: 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.

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

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

10. The first compliance application, related to Decision 2011-391, was submitted on December 1, 2011. The application provided 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 requested 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.

11. 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.

12. On December 2, 2011, ATCO Utilities submitted a letter 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.

13. On December 20, 2011, the Commission issued a ruling denying the stay application in Proceeding ID No. 1556. On December 29, 2011, the Commission issued a ruling denying the requested suspension of the process for the compliance application.

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

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

14. On March 22, 2012 the Commission issued Decision [2012-077](#)⁸ which denied the ATCO Utilities R&V application of Decision 2011-391.

15. On September 11, 2012 the Alberta Court of Appeal granted leave to appeal decisions 2011-391 and 2012-077.

16. Decision 2012-166 on the first compliance filing resulting from Decision 2011-391 was issued on June 14, 2012, and it directed ATCO Utilities to submit a second compliance filing by August 15, 2012.

3 Decision 2012-166 – Commission directions

17. In this decision the Commission will review the second compliance filing in light of the three Commission directions set out in Decision 2012-166.

3.1 Direction 1 – special payment future liabilities of regulated and non-regulated entities

18. In Decision 2012-166 ATCO Utilities was directed as follows:

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.

19. ATCO Utilities provided the following table which was calculated by Mercer Limited (Mercer), based on confidential employee information:⁹

Table 2. Pension liabilities and special payments

	Liabilities (\$)	Special payments per year 2010-2012* (\$)
ATCO Gas	715,780,100	7,058,600
ATCO Electric	525,313,100	5,180,200
ATCO Pipelines	131,437,100	1,296,100
Other companies	291,508,100	<u>2,874,500</u>
Total special payments		16,409,000

*Prior to head office special payment allocations.

⁸ 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.

⁹ Exhibit 1, application, response to Direction 1, page 2.

20. In response to UCA-AU-1(b),¹⁰ ATCO Utilities provided the letter from Mercer summarizing the 2010 contribution requirements for regulated and non-regulated employees. The amounts in the letter supported the information provided by ATCO Utilities. In AUC-AU-3(a) attachment ATCO Utilities provided Table 9 which has been reproduced in [Appendix 3](#). Table 9 provides the revised placeholder amounts including the refunds to (collections by) each utility of the capital portions of pension costs. ATCO Utilities explained that the difference between the special payment values in Table 9 and those provided in the table provided in paragraph 19 above are related to the allocation of special payments from Head Office.¹¹

21. The Commission notes that Direction 1 is a continuing direction applicable to all future applications which involve clearing of balances in the special payment deferral account. The Commission would expect ATCO Utilities to provide similar information in such future filings including Table 9, the Mercer letter included in the response to UCA-AU-1(b) and the explanations provided in AUC-AU-3(b). The Commission is satisfied that ATCO Utilities has complied with Direction 1 for the purposes of the compliance filing. The Commission further directs ATCO Utilities in future pension applications to provide sufficient detail regarding how all head office pension cost allocations (including DB current service cost, DC service cost and DB special payments) will be split-out between each of the regulated entities and the non-regulated entities collectively.

3.2 Direction 2 – final amounts for substitution with the existing placeholders in the revenue requirement of the ATCO Utilities

22. In Decision 2012-166 ATCO Utilities was directed as follows:

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.

23. As noted above, in AUC-AU-3(a) attachment ATCO Utilities provided Table 9 which has been reproduced in [Appendix 3](#). Table 9 provides the revised placeholder amounts including the refunds to (collections by) each utility of the capital portions of pension costs.

24. In its response to this direction in this application ATCO Utilities requested a change for AE transmission (AE-T) to continue collection of pension expense on a cash basis, as opposed to

¹⁰ Exhibit 14.01.

¹¹ Exhibit 13.01, AUC-AU-3(b).

the collection of the capitalized portion of pension cost as part of invested capital as approved by Decision 2012-166. The reasons for this change were explained as follows:

Due to the significant financing needed for required transmission infrastructure and the continued downward pressure on credit metrics as outlined in AE's 2013-2014 Transmission GTA, ATCO Electric-Transmission needs to keep receiving the capital component of pension expense as cash and therefore will keep the current practice of recording these amounts as no cost capital.¹²

25. In an information response ATCO Utilities quantified the proposed capital expenditure increase over the 2012 to 2014 time period as approximately 140 per cent each year compared to 2011 actual expenditures.¹³ ATCO Utilities further explained that:

The credit metric analysis completed by ATCO Electric in preparing its Transmission 2013-2014 GTA showed the previously awarded credit metric relief in the areas of Direct Assigned CWIP [Construction Work In Progress] and Federal Future Income Taxes would be insufficient to maintain credit metrics at an appropriate level to sustain an "A" rating and not risk a credit rating downgrade. For this reason, ATCO Electric has requested in 2013 and 2014 a continuation of Direct Assigned CWIP, Federal Future Income Taxes and capitalized pension payments credit metric relief as well as the inclusion of Provincial Future Income Taxes.¹⁴

26. In argument the UCA noted that the interest coverage ratio actually increases without the capital component of pension expense in rates. The UCA stated that AE-T should be required to refund the capital portion of pension expense as was approved in Decision 2012-166.¹⁵

Commission findings

27. The Commission has reviewed the numbers provided in Table 9 and is satisfied that ATCO Utilities has provided sufficient detail in this proceeding for the Commission to approve the refund (collection) amounts and final pension cost revenue requirements for 2010-2012.

28. Turning to the issue of the treatment of AE-T pension costs, the Commission found the information provided by ATCO Utilities in its information responses helpful. The Commission has recently authorized the recovery of Direct Assigned CWIP in rate base along with the recovery of federal future income taxes (FIT) for the transmission function of AE.¹⁶ The large infrastructure build has previously been recognized by the Commission as applying downward pressure on the credit metrics of AE. AE has indicated in this proceeding that this downward pressure continues in light of its proposed infrastructure build. The Commission agrees with AE. The table provided in the response to AUC-AU-1(b),¹⁷ reproduced below, is a useful illustration of how credit metrics may be impacted if the collection of pension expense on a cash basis in the rates of AE-T was not continued and the capitalized portion of pension cost was collected as part of invested capital as approved by Decision 2012-166.

¹² Exhibit 1, application, page 3.

¹³ Exhibit 13.01, AUC-AU-2(b).

¹⁴ Exhibit 14.01, AUC-AU-2(a).

¹⁵ Exhibit 16.02, page 2.

¹⁶ Decision 2011-134: ATCO Electric Ltd. 2011-2012 Phase 1 Distribution Tariff 2011-2012 Transmission Facility Owner Tariff, Application No. 1606228, Proceeding ID No. 650, paragraph 548.

¹⁷ Ibid.

Table 3. AE credit metrics comparison

AE credit metrics including recovery of CWIP and FIT and including cash collection of pension expense		
	2013	2014
Interest coverage ratio	2.46	2.42
FFO/interest coverage	3.41	3.39
FFO/debt	12.7%	12.7%
AE credit metrics including recovery of CWIP and FIT but excluding cash collection of pension expense		
	2013	2014
Interest coverage ratio	2.48	2.43
FFO/interest coverage	3.35	3.34
FFO/debt	12.4%	12.4%

29. It has been noted by the Commission in several proceedings that utility customers benefit from an ‘A’ credit rating for the utility. For example, the Commission in Decision 2011-474¹⁸ reiterated its intent to establish a capital structure for stand-alone utilities sufficient to maintain a credit rating in the A-range.¹⁹

30. In Decision 2009-216²⁰ the Commission described the credit metrics in Table 3 above:

- EBIT Coverage (interest coverage ratio), which is the company’s earnings measured before deducting interest and taxes divided by total interest costs;
- FFO/Debt, which is the company’s funds from operations as a percentage of total debt;
- FFO Coverage, which is the company’s funds from operations divided by total interest costs.²¹

31. Decision 2009-216 also noted that Dominion Bond Rating Services (DBRS) refers to the FFO/Debt ratio as “cash flow to debt.”²²

32. Also in Decision 2009-216, the Commission observed the following minimum credit metrics associated with an A-range credit rating:²³

- EBIT coverage of 2.0 times
- FFO coverage of 3.0 times
- FFO/debt ratio of 11.1 to 14.3%

¹⁸ Decision 2011-474: 2011 Generic Cost of Capital, Application No. 1606549, Proceeding ID No. 833, December 8, 2011.

¹⁹ Ibid., paragraph 172.

²⁰ Decision 2009-216: 2009 Generic Cost of Capital, Application No. 1578571, Proceeding ID. 85, November 21, 2009.

²¹ Ibid., paragraph 345.

²² Decision 2009-216, paragraph 349.

²³ Ibid., paragraphs 348, 354 and 356.

33. As noted by the UCA, the EBIT coverage (interest coverage ratio) actually increases without the capital component of pension costs included in rates.²⁴ However, the impact on the interest coverage ratio is small and the two cash-flow credit metrics (FFO coverage and FFO/debt) are improved with this pension cost included in rates.

34. It is clear that allowing AE-T to collect its pension cost as cash will improve the cash-flow analysis of AE-T and its associated creditworthiness. The 30 basis point improvement of the FFO/debt ratio, and the small improvement in the FFO/interest coverage ratio are directionally an improvement in overall credit metrics. Credit metrics are improved by the inclusion of the collection of pension expense on a cash basis in the rates of AE-T. The Commission considers that this overall improvement in the credit metrics will be beneficial, particularly in light of AE-T's proposed large infrastructure projects. The Commission finds that granting the request of ATCO Utilities to continue the collection of the AE-T capital portion of pension expense on a cash basis, as opposed to the collection of the capitalized portion of pension cost as part of invested capital as approved by Decision 2012-166, is acceptable and directs AE-T to collect in rates the capitalized pension amounts.

35. In Decision 2012-237²⁵ the Commission commented on the issue of pension adjustments to the going-in rates for AE distribution and AG:

116. ... the Commission will allow the ATCO Electric requested adjustment to going-in rates to remove its cash basis current year recovery of capitalized pension costs. In Decision 2012-166 the Commission approved the request of the ATCO Utilities to no longer collect the capital component of pension costs in the current year on a cash basis and to fund it as part of each utility's invested capital. Given this decision and ATCO Gas' removal of similar costs in its general rate application, the Commission considers that this adjustment provides for consistent treatment between the ATCO distribution companies for the purpose of setting going-in rates for PBR. The requested adjustment is similar in nature to the adjustment to going-in rates permitted in Decision 2009-035 for the inclusion of ENMAX short term incentive plan costs. It is also similar to the replacement of a placeholder, and is not a rate adjustment made after-the-fact to reflect actual results. The Commission grants ATCO Electric's removal of its cash basis current year recovery of capitalized pension costs for the purposes of establishing going-in rates.²⁶ [footnotes removed]

36. In light of the above, the refund (collection) amounts provided in Table 9²⁷ of the application and as repeated in Table 4 below, are approved for each utility. In an information response ATCO Utilities clarified that 2012 refund for AE distribution (AE-D) should be \$7.6 million to reflect the amount collected in rates.²⁸ The Commission has prepared the following table totaling the revenue requirement refund (collection) for AE-D, AE-T, AG and AP for the 2010 to 2012 period:

²⁴ Exhibit 16.02, paragraph 7.

²⁵ Decision 2012-237: Rate Regulation Initiative Distribution Performance-Based Regulation, Application No. 1606029, Proceeding ID No. 566, September 12, 2012.

²⁶ Ibid., paragraph 116.

²⁷ Exhibit 4.

²⁸ Exhibit 14.01, UCA-AU-4(a).

Table 4. Pension cost refund (collection) amounts

\$000s	2010	2011	2012	Total
AE-D	8,300	8,700	7,600	24,600
AE-T	0	0	0	0
AG	10,900	(1,000)	(1,600)	8,300
AP	1,870	1,820	1,710	5,400

37. In its application ATCO Utilities explained the collectible amounts for AG in 2011 and 2012 as follows:

...it should be noted that AG already refunded the 2011 and 2012 capital portion of pension cost in their 2011/2012 GRA compliance filing and the amounts shown as collectible for 2011/12 are to true up the compliance filing amounts for the 2010 capital portion of pension costs as well as the COLA adjustment.²⁹

38. The Commission directs ATCO Utilities to propose a method to refund (collect) the amounts shown in Table 4 above.

39. The Commission has used the information in Table 9 to calculate the final pension cost for inclusion in 2010 to 2012 revenue requirement of each utility (not including the impact of the refund or collection addressed in Table 4 above). The Commission approves the following pension cost amounts for inclusion in the 2010 to 2012 revenue requirement of each utility in substitution for existing placeholder amounts.

Table 5. Approved pension cost for each utility per year

Approved pension cost 2010 (\$ millions)				
	ATCO Electric distribution (AE-D)	ATCO Electric transmission (AE-T)	ATCO Gas (AG)	ATCO Pipelines (AP)
DB current service cost	7.30	3.80	14.85	3.00
DB special payment	3.50	1.80	7.15	1.35
DC service cost	2.60	1.40	5.20	1.00
Total	13.40	7.00	27.20	5.35

Approved pension cost 2011 (\$ millions)				
	ATCO Electric distribution (AE-D)	ATCO Electric transmission (AE-T)	ATCO Gas (AG)	ATCO Pipelines (AP)
DB current service cost	6.90	4.20	14.85	3.00
DB special payment	3.50	1.80	7.15	1.35
DC service cost	4.70	2.80	6.50	1.00
Total	15.10	8.80	28.50	5.35

²⁹ Exhibit 1, application, response to Direction 2.

Approved pension cost 2012 (\$ millions)				
	ATCO Electric distribution (AE-D)	ATCO Electric transmission (AE-T)	ATCO Gas (AG)	ATCO Pipelines (AP)
DB current service cost	5.90	3.60	12.65	2.60
DB special payment	3.50	1.80	7.15	1.35
DC service cost	5.20	3.10	7.30	1.00
Total	14.60	8.50	27.10	4.95

40. For AG and AE-D the Commission directs each of AG and AE to update its performance-based ratemaking (PBR)³⁰ compliance filings to include in their respective going-in rates the final 2012 pension cost revenue requirement amounts approved above. The Commission directs AP to update its 2010-2012 pension placeholders with the approved amounts in its future 2013 revenue requirement application. The Commission also directs that AE-T will keep the \$14.3 million³¹ it collected over the 2010-2012 time period and that it had originally intended to refund. The amount will be offset with no-cost capital as was done previously.

41. In its PBR compliance application,³² AE-D provided the impact to its revenue requirement due to the refund of the \$24.6 million capital portion of pension costs. After collection by AE-D, the \$24.6 million had been treated as no cost capital and amortized at the same rate as the underlying assets with the unamortized amount being equal to \$20.9 million³³ at the end of 2012. AE provided a chart detailing the calculation of the resultant \$2.4 million 2012 revenue requirement increase reflective of the depreciation, return and taxes on the adjusted rate base amount after a COLA adjustment for 2012:

Table 6. AE revenue requirement increase calculation

	Note	Amount (\$ millions)
2012 recapitalized rate base	From Application No. 1608750 (Proceeding ID 2078)	20.90
Depreciation on rate base	Rate = 3.44%	0.70
Pre-tax return on rate base	WACC = 8.38%	1.70
Total going-in rate adjustment	Lines 2+3	2.40

42. The Commission has reviewed the above calculation by AE and approves the \$2.4 million increase to the 2012 revenue requirement resulting from the refund of the \$24.6 million of the capital portion of pension costs.

43. In AG's PBR compliance application,³⁴ AG confirmed that the impact to its 2012 revenue requirement resulting from the refund of the \$8.3 million of the capital portion of pension costs was an increase of \$1.6 million after a COLA adjustment for 2012. This amount reconciles to the

³⁰ Currently under consideration in Proceeding ID No. 2130, 2012 PBR Compliance Filings.

³¹ Exhibit 13.03, Table 9.

³² Proceeding ID No. 2130, Exhibit 27.01, pages 20 and 21.

³³ \$24.6 million, less tax shield of \$6.8 million, add return earned from 2010-2012 of \$2.1 million, add depreciation of \$1.0 million = \$20.9 million capitalized pension.

³⁴ Proceeding ID No. 2130, Exhibit 28.01, page 79.

amount in Table 9 of this application.³⁵ The Commission has reviewed the AG calculation and approves the \$1.6 million increase to the 2012 revenue requirement resulting from the refund of the \$8.3 million of the capital portion of pension costs.

44. In the back-up sheet attached with Table 9,³⁶ ATCO Utilities provided the calculation of the amortization, return and income tax adjustments due to the refund by AP of \$5.4 million in capitalized pension. ATCO Utilities further noted that the return and income tax adjustments were incorporated into AP's 2012 final revenue requirement application³⁷ through an adjustment to necessary working capital.³⁸ The Commission has reviewed the calculation by AP and is satisfied with the adjustment that has been made. The Commission directs AP to incorporate the 2010, 2011 and 2012 depreciation adjustments into its 2013 revenue requirement application.

45. In the initial pension compliance application³⁹ an information response⁴⁰ by ATCO Utilities indicated that the 2012 revenue requirement impact to AP of the refund of the \$5.4 million capital portion of pension costs was a decrease of \$0.4 million after a COLA adjustment for 2012. The Commission has reviewed the AP calculation and approves the \$0.4 million decrease to the 2012 revenue requirement resulting from the refund of the \$5.4 million of the capital portion of pension costs. The Commission directs AP to incorporate this amount into its future 2013 revenue requirement application.

46. The following table sets out the difference between the placeholder amounts as set out in Table 1 above and the final pension cost amounts for each utility as set out in Table 5 above for each of 2010, 2011 and 2012.

Table 7. Utility approved pension cost summary

	(\$ millions)		
	2010	2011	2012
ATCO Electric placeholder	20.40	23.90	24.70
2012 COLA adjustment	0.00	0.00	1.60
ATCO Electric approved	20.40	23.90	23.10
Net revenue requirement increase/(decrease)	0.00	0.00	2.40
ATCO Gas placeholder	27.20	28.50	29.30
2012 COLA adjustment	0.00	0.00	2.20
ATCO Gas approved	27.20	28.50	27.10
Net revenue requirement increase/(decrease)	0.00	0.00	1.6

³⁵ Exhibit 4.0.

³⁶ Ibid., AP AdjCalc.

³⁷ Application No. 1608689, Proceeding ID No. 2041.

³⁸ Exhibit 14.01, UCA-AU-4(c).

³⁹ Application No. 1607949, Proceeding ID No. 1599.

⁴⁰ Ibid., Exhibit 12.01, AUC-AU-1(a-b).

	(\$ millions)		
	2010	2011	2012
ATCO Pipelines placeholder	5.35	5.35	5.35
2012 COLA adjustment	0.00	0.00	0.40
ATCO Pipelines approved	5.35	5.35	4.95
Net revenue requirement increase/(decrease)	0.00	0.00	(0.35)
Placeholder total for ATCO Utilities	52.95	57.80	59.35
Approved total for ATCO Utilities	52.95	57.80	55.15
Difference	0.00	0.00	4.20

47. The Commission directs ATCO Utilities to propose a method to refund the amounts shown in Table 7 above.

3.3 Direction 3 – clarification of DC pension cost amount

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

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.

49. In its response ATCO Utilities clarified that the \$7.3 million figure was the actual 2011 DC pension cost. The information request referenced in the Commission direction was provided in order to show the accuracy of the forecast amount. The forecast amount of \$7.5 million was confirmed as the correct amount to be reconciled.⁴¹

50. The Commission is satisfied that ATCO Utilities has complied with Direction 3.

⁴¹ Exhibit 1, application, page 4.

4 Order

51. It is hereby ordered that:

- (1) The pension refund (collection) amounts shown in Table 4 are approved as final.
- (2) The pension cost revenue requirement amounts for each of 2010, 2011 and 2012 shown in Table 5 for each of ATCO Gas, ATCO Electric and ATCO Pipelines are approved as final.
- (3) ATCO Gas and ATCO Electric (distribution) will each update its PBR going-in-rates to include the final 2012 pension cost revenue requirement amounts in the manner directed in this decision.
- (4) ATCO Pipelines will update its 2010, 2011 and 2012 pension placeholders in the manner directed in this decision.

Dated on December 7, 2012.

The Alberta Utilities Commission

(original signed by)

Bill Lyttle
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)) W. Wright B. Jones
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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 notes that Direction 1 is a continuing direction applicable to all future applications which involve clearing of balances in the special payment deferral account. The Commission would expect ATCO Utilities to provide similar information in such future filings including Table 9, the Mercer letter included in the response to UCA-AU-1(b) and the explanations provided in AUC-AU-3(b). The Commission is satisfied that ATCO Utilities has complied with Direction 1 for the purposes of the compliance filing. The Commission further directs ATCO Utilities in future pension applications to provide sufficient detail regarding how all head office pension cost allocations (including DB current service cost, DC service cost and DB special payments) will be split-out between each of the regulated entities and the non-regulated entities collectively. Paragraph 21
2. It is clear that allowing AE-T to collect its pension cost as cash will improve the cash-flow analysis of AE-T and its associated creditworthiness. The 30 basis point improvement of the FFO/debt ratio, and the small improvement in the FFO/interest coverage ratio are directionally an improvement in overall credit metrics. Credit metrics are improved by the inclusion of the collection of pension expense on a cash basis in the rates of AE-T. The Commission considers that this overall improvement in the credit metrics will be beneficial, particularly in light of AE-T's proposed large infrastructure projects. The Commission finds that granting the request of ATCO Utilities to continue the collection of the AE-T capital portion of pension expense on a cash basis, as opposed to the collection of the capitalized portion of pension cost as part of invested capital as approved by Decision 2012-166, is acceptable and directs AE-T to collect in rates the capitalized pension amounts. Paragraph 34
3. The Commission directs ATCO Utilities to propose a method to refund (collect) the amounts shown in Table 4 above. Paragraph 38
4. For AG and AE-D the Commission directs each of AG and AE to update its performance-based ratemaking (PBR) compliance filings to include in their respective going-in rates the final 2012 pension cost revenue requirement amounts approved above. The Commission directs AP to update its 2010-2012 pension placeholders with the approved amounts in its future 2013 revenue requirement application. The Commission also directs that AE-T will keep the \$14.3 million it collected over the 2010-2012 time period and that it had originally intended to refund. The amount will be offset with no-cost capital as was done previously. Paragraph 40
5. In the back-up sheet attached with Table 9, ATCO Utilities provided the calculation of the amortization, return and income tax adjustments due to the refund by AP of \$5.4 million in capitalized pension. ATCO Utilities further noted that the return and income tax adjustments were incorporated into AP's 2012 final revenue requirement application through an adjustment to necessary working capital. The Commission has reviewed the calculation by AP and is satisfied with the adjustment that has been made. The Commission directs AP to incorporate the 2010, 2011 and 2012 depreciation adjustments into its 2013 revenue requirement application. Paragraph 44

6. In the initial pension compliance application an information response by ATCO Utilities indicated that the 2012 revenue requirement impact to AP of the refund of the \$5.4 million capital portion of pension costs was a decrease of \$0.4 million after a COLA adjustment for 2012. The Commission has reviewed the AP calculation and approves the \$0.4 million decrease to the 2012 revenue requirement resulting from the refund of the \$5.4 million of the capital portion of pension costs. The Commission directs AP to incorporate this amount into its future 2013 revenue requirement application.
..... Paragraph 45
7. The Commission directs ATCO Utilities to propose a method to refund the amounts shown in Table 7 above. Paragraph 47

Appendix 3 – Table 9 revised placeholder amounts[\(return to text\)](#)

	2010				2011				2012			
DB pension costs	AE - D	AE - T	AG	AP	AE - D	AE - T	AG	AP	AE - D	AE - T	AG	AP
Current service costs												
Operating	3.9	2.1	8.9	1.9	3.5	1.7	8.9	1.9	3.0	1.5	7.6	1.65
Capital	3.4	1.7	5.95	1.1	3.4	2.4	5.95	1.1	2.9	2.1	5.05	0.95
Total	7.3	3.8	14.85	3.0	6.9	4.2	14.85	3.0	5.9	3.6	12.65	2.6
Special payments												
Operating	1.8	1.0	4.3	0.85	1.8	0.7	4.3	0.85	1.8	0.7	4.3	0.85
Capital	1.6	0.8	2.85	0.5	1.7	1.1	2.85	0.5	1.7	1.1	2.85	0.5
Total	3.5	1.8	7.15	1.35	3.5	1.8	7.15	1.35	3.5	1.8	7.15	1.35
DC pension costs												
Operating	1.4	0.7	3.1	0.6	2.4	1.1	3.9	0.6	2.7	1.3	4.4	0.6
Capital	1.2	0.6	2.1	0.4	2.3	1.7	2.6	0.4	2.5	1.9	2.9	0.4
Total	2.6	1.4	5.2	1.0	4.7	2.8	6.5	1.0	5.2	3.1	7.3	1
Total DB current service costs	7.3	3.8	14.85	3.0	6.9	4.2	14.85	3.0	5.9	3.6	12.65	2.6
Total DB special payments	3.5	1.8	7.15	1.35	3.5	1.8	7.15	1.35	3.5	1.8	7.15	1.35
Total DC current service costs	2.6	1.4	5.2	1.0	4.7	2.8	6.5	1.0	5.2	3.1	7.3	1.0
Gross capital portion to be refunded	6.3		10.9	1.90	7.3		(3.1)	1.9	7.1		(1.6)	1.85
Adjustments												
Depreciation adjustment	(0.1)			(0.03)	(0.3)		(0.6)	(0.08)	(0.6)		(1.0)	(0.14)
Return adjustment	(0.2)				(0.7)		(0.9)		(1.2)		(1.7)	
Income Tax adjustment	2.4				2.4		3.6		2.0		2.7	
Total adjustment to capital portion to be refunded	2.0			(0.03)	1.4		2.1	(0.08)	0.3		0.0	(0.14)
Net refund of capital portion of pension cost	8.3		10.9	1.87	8.7		(1.0)	1.82	7.3		(1.6)	1.71