

- 1 **Q. Further to the reply to CA-NP-45 (part (a)), please provide a copy of the evidence**  
2 **filed by FortisAlberta in support of the creation of a pension cost deferral account as**  
3 **referred to therein.**  
4  
5 A. Attachment A provides the applicable excerpts of the evidence filed with the Alberta  
6 Utilities Commission by FortisAlberta.

**Excerpt from FortisAlberta Inc.**  
**2010/2011 Phase I/II Distribution Tariff Application**



Cynthia Johnston  
Vice President, Regulatory & Legal

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June 16, 2009

Alberta Utilities Commission  
10055 – 106 Street  
Edmonton, AB T5J 2Y2

**Attention:** Shawn Allen

Dear Mr. Allen:

**Re: FortisAlberta Inc. (FortisAlberta or FAI)  
2010/2011 Phase I/II Distribution Tariff Application**

Please be advised that FortisAlberta submitted its 2010/2011 Phase I/II Distribution Tariff Application for approval of tariffs for 2010 and 2011 today. The proposed Terms and Conditions of Electric Distribution Service (which form part of Section 8.5) have not been included at this time but will be forwarded the week of June 22, 2009.

As Commission approval of the 2010/2011 revenue requirement is not expected prior to the end of 2009, FortisAlberta will file a separate 2010 Interim Tariff Application in the fall of 2009, which will seek approval for an interim tariff to be effective January 1, 2010.

The following is FortisAlberta's proposed schedule for the 2010/2011 Tariff Application for consideration by the Commission and interested parties.

<b><u>Process Step</u></b>	<b><u>Date</u></b>
Application Filed	<b>June 16, 2009</b>
AUC Notice of Application	<b>June 30, 2009</b>
Statements of Intent to Participate	<b>July 9, 2009</b>
Process Schedule Issued	<b>July 9, 2009</b>
Technical Sessions	<b>As required</b>
Information Requests (IRs) to FAI	<b>August 27, 2009</b>
FAI IR Responses	<b>September 24, 2009</b>
Intervener Evidence	<b>October 19, 2009</b>
IRs to Interveners	<b>November 2, 2009</b>
Intervener IR Responses	<b>November 24, 2009</b>
Rebuttal Evidence	<b>December 1, 2009</b>
Hearing Start	<b>December 7, 2009</b>

Please contact me if you require any further information.

Sincerely,

*“Original signed by”*

Cynthia Johnston  
Vice-President  
Regulatory & Legal

1 **General Operating Expense** is forecast to increase by \$1.7 million in 2010 and \$0.8 million in  
2 2011. The increase is primarily due to metering telecommunication costs for interval meters and  
3 AMI collection equipment, higher property taxes related to new buildings, and higher insurance  
4 costs. Other operating cost categories are either flat, or in line with general inflation  
5 expectations.

6  
7 4. Reserves and Deferrals

8 For the 2010/2011 test period, the Company is requesting Commission approval of a number of  
9 new reserve and deferral accounts, in addition to historical accounts (self insurance, hearing  
10 costs, AESO contributions, and AESO charges) consistent with past practice and regulatory  
11 approvals. The Company is also proposing to keep those deferral accounts, agreed to and  
12 approved as part of the 2008/2009 Negotiated Settlement Agreement (NSA), relating to  
13 legislative and accounting changes (NSA Clauses 25 and 26). The new deferral and reserve  
14 accounts are outlined below.

15  
16 FortisAlberta is required to complete pension funding valuations every three years. The next  
17 valuation will be completed as at December 31, 2010. The required funding for 2010 is \$1.6  
18 million. Mercer Human Resource Consulting, the Company's actuary, has prepared an estimate  
19 of the funding expense for 2011. Due in large part to the significant reductions in the market  
20 value of assets during the past year, the projected required funding has increased substantially to  
21 a range of \$3.3 million to \$4.4 million for 2011. The amount of \$4.4 million has been included  
22 in this Application. Given the impact of market volatility on the required funding level,  
23 FortisAlberta is proposing a **Pension Cash Cost Deferral Account** to capture any difference  
24 between the actual 2011 funding amount and forecast amount included in this Application, to  
25 permit true-up in the next DTA.

26  
27 FortisAlberta requests Commission approval for an **AMI Deferral Account** to support evolving  
28 AMI requirements and potential changes in policy, regulations, rules and practices related to  
29 AMI and supporting computer systems. FortisAlberta proposes to record the differences  
30 between the forecast and actual AMI and computer system expenditures that are a direct result of

FortisAlberta proposes that the placeholders for ROE and capital structure in the 2010/2011 revenue requirement will be updated to reflect those approved in the 2009 GCOC decision.

Since a decision on the 2009 GCOC is anticipated in advance of a decision with respect to this Application, FortisAlberta expects that the ROE and capital structure approved by the Commission will be included in a compliance refiling prior to rates being finalized. Should a decision on the 2009 GCOC not be issued in time to be included in the compliance filing, the Company will hold any difference resulting from the placeholder and the approved ROE and capital structure in a deferral account to be trued-up at a future time.

### **Pension Cash Costs**

FortisAlberta sponsors a pension plan with both a Defined Benefit (DB) and Defined Contribution (DC) component, and other post-retirement benefits as part of its overall compensation structure.

The DB component of the pension plan provides benefits to certain long service employees. There are 44 members in total in the DB component, including 21 active members. The plan is closed to new members.

For regulatory purposes the DB regulatory pension amounts are recoverable in rates from customers on a cash funded basis. Normally as a result of the cash basis being used for both the DB pension expense and its recovery through distribution rates there is no need for a deferral treatment.

Due to the forecast risk on the DB pension expense for 2011 a pension cash cost deferral account has been set up. The planned actuarial valuation for that year is not expected to be completed before December 31, 2010 and could be materially different from previous valuations of the account depending on the market conditions.

1 The amount of \$4.4 million represents an estimate of the funding requirement for 2011 and is  
2 also included in the benefit loading for the same period. Any differences between this estimate  
3 and the actual valuation will be either refunded or collected in future rates.

#### 4 5 **UUWA Contract Negotiation**

6 The 2008/2009 NSA included a placeholder for labour increases for UUWA employees for 2008  
7 and 2009. Once a new collective agreement was ratified early in 2008, and in accordance with  
8 the 2008/2009 NSA commitment, FortisAlberta included the impacts of the UUWA agreement  
9 in a 2008/2009 NSA Refiling, filed with the AUC on April 11, 2008. Decision 2008-057  
10 approved an increase in the 2008 and 2009 revenue requirements of \$0.8 million and \$0.9  
11 million respectively to reflect the incremental cost of the ratified agreement above the NSA  
12 placeholders. Both amounts are being collected in 2009 rates.

13  
14 The current collective agreement between FortisAlberta and the UUWA expires on December  
15 31, 2010. Collective bargaining with the Association will begin in the fall of 2010. So as not to  
16 prejudice negotiations, a placeholder has been included in the 2011 labour forecast for  
17 Association employees. Final amounts will be confirmed once a new collective agreement is  
18 ratified by the Association and the Company, anticipated early in 2011. FortisAlberta will hold  
19 the 2011 difference between the forecast costs and the ratified levels in a deferral account and  
20 include them in its next filed DTA.

#### 21 22 **2.9.4 IFRS Rule 026 Deferral Accounts**

23 The introduction of IFRS requires the creation of a number of deferral accounts to accommodate  
24 transitional issues. These deferral accounts are required to address the following issues:

- 25 1) *Insurance proceeds on retirement*: Consistent with Rule 026 paragraph 6(2)(l), the  
26 Company requests that a deferral account be created for any insurance proceeds received  
27 in relation to PP&E and a recommendation for settlement will be included in the next rate  
28 application. There are no forecast insurance proceeds in relation to PP&E in this  
29 Application.
- 30 2) *Gains or losses on retirement*: Consistent with Rule 026 paragraph 6(2)(i), the Company  
31 requests that these gains and losses on the ordinary course derecognition of an item of