

**RÉPONSE D'HYDRO-QUÉBEC DISTRIBUTION
À L'ENGAGEMENT NUMÉRO 3**

Engagement n° 3 (demandé par OC)

To verify whether there is a materiality threshold approved by the Alberta Utilities Commission with respect to the way pension costs can be Z factored in Alberta, and if so, to provide the amount of said threshold, and details of how the Z Factor works for pension in Alberta

Réponse de Concentric à l'engagement n° 3

1 It is Concentric's understanding based on the language in the Alberta Utilities
2 Commission's ("AUC") decision D-2012-237 that the materiality threshold set
3 by the Commission would apply to all Z factors considered by the
4 Commission. In the 2016 generic proceeding, the AUC upheld from the 2012
5 generic proceeding that the Z factor materiality threshold would be equal to
6 the dollar value of a 40 basis point change in ROE on an after-tax basis
7 calculated on the distribution utility's equity used to determine the final
8 approved notional revenue requirement on which going-in rates were
9 established (2017).¹ The materiality threshold is applied to determine eligibility
10 for a Z Factor application, not as a "deadzone" for which costs the company
11 can pass through to ratepayers.

12 It is also Concentric's understanding based on D-2012-237 that the AUC stated
13 explicitly that a change to at least part of the pension expense could qualify
14 for a Z factor application. This is described in decision 2012-237, paragraph
15 [696] which states "[i]n the event of a material change to a company's special
16 payment obligations (either positively or negatively), a Z factor application
17 would be available to address this change."

¹ Alberta Utilities Commission, Decision 2012-237, September 12, 2012, at 112; D-20414-D01-2016 at 91.