

# Bulletin 2020-25

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## Reducing regulatory burden with materiality thresholds for review of cost of service rate applications

One of the key themes articulated in the [AUC’s strategic plan for 2019-2022](#) is increased efficiency and reduced regulatory burden. The AUC understands the importance of cost-effective, timely and proportionate regulation and has undertaken a new initiative to improve the efficiency of its review of cost of service rate applications. Materiality thresholds create a more effective and efficient regulatory process by focusing examination on material issues and by avoiding the time, effort and resulting costs to investigate marginal cost differences.

Effective immediately, the AUC is implementing materiality thresholds for testing the revenue requirement for operations and maintenance (O&M) costs in cost of service applications. Materiality thresholds will be used to test variances between approved, actual, and forecast O&M costs. Materiality will be applied to O&M accounts at the uniform system of account and prime account level and the threshold will vary depending on the total forecast revenue requirement of the utility as follows:

Revenue requirement	Percentage variance	\$ variance	Threshold rule
Less than \$100 million	3	75,000	Greater of 3% and \$ variance
\$100 million to \$250 million	3	100,000	
\$250 million to \$500 million	3	250,000	
More than \$500 million	3	400,000	

Variances below these thresholds would not be expected to be explained by the applicant nor questioned by the Commission or other parties. However, a review of costs or issues below the materiality threshold will be permitted if the cost item or issue is precedent setting or invokes regulatory accounting principles, adherence to Commission rules or previous directions. Any request for an exception to examine a cost below these thresholds must be supported by a compelling explanation of the rationale, precedent, or principle at stake. Absent a Commission order allowing for exceptions, information requests or other materials purporting to examine costs below these materiality thresholds will be excluded from the record of the proceeding and any related costs claimed will be disallowed. The Commission may issue its orders in these circumstances without additional process steps.

The success of this initiative in reducing regulatory burden and enhancing efficiencies can only be achieved with the cooperation of all parties. Consequently, actions to re-categorize costs for the sole purpose of avoiding scrutiny could result in the Commission directing a full examination of all costs, regardless of materiality or threshold. The Commission expects such action will not be necessary.

Capital projects and rate base will continue to be examined based on the minimum filing requirements associated with capital projects and business cases as outlined in Alberta Energy and Utilities Board [Bulletin 2006-25](#). The rate base-related items of return, depreciation and taxes will be reviewed to ensure they reflect the correct parameters.

In addition to this bulletin, a process letter for Proceeding 25663: ATCO Pipelines 2021-2023 General Rate Application, which will be the first proceeding to have these materiality thresholds applied, will be issued shortly. The Commission panel for this proceeding has directed, through the issues list, that the items that are above the materiality threshold will be the subject of review.

The Commission will consider whether the application of materiality thresholds to other types of proceedings can also achieve added efficiencies and may provide further direction in this regard at a future date.

Any questions related to this initiative should be directed to Heather Gnenz at [heather.gnenz@auc.ab.ca](mailto:heather.gnenz@auc.ab.ca) or by telephone at 403-592-4419.

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