

# Bulletin 2021-04

March 1, 2021

## **Stakeholder consultations to evaluate performance-based regulation in Alberta and to determine process to establish 2023 rates for distribution facility owners**

Rates for the electric and natural gas distribution facility owners (DFOs) under the jurisdiction of the Alberta Utilities Commission are currently regulated under performance-based regulation (PBR) plans established in Decision 20414-D01-2016 (Errata). The plans are effective from January 1, 2018, to December 31, 2022, and apply to the four electric DFOs: ATCO Electric Ltd., FortisAlberta Inc., ENMAX Power Corporation and EPCOR Distribution & Transmission Inc.; and the two natural gas DFOs: ATCO Gas and Pipelines Ltd. and Apex Utilities Inc. These plans drew on the PBR framework previously established by the Commission in Decision 2012-237 for all DFOs (except for ENMAX) and in Decision 2009-035 for ENMAX only. Collectively, these plans encompass more than a decade of PBR regulation in Alberta.

Broadly speaking, the fundamental premise of a PBR plan is to create an environment that fosters incentives for a regulated utility to seek out and realize process, operational, capital and financial efficiencies in an effort to reduce its costs, while maintaining service quality. The conventional relationship between a utility's revenues and costs of providing service is intentionally discontinued during this time, to emulate competitive market forces and provide the utility with flexibility of managing its business.

At the end of the PBR term, it is customary to realign utility revenues and costs for the benefit of customers and utilities. To the extent a utility was successful in achieving efficiencies that resulted in cost savings during a PBR plan, relinking of revenues and costs should reflect these realized savings in rates, thereby benefitting customers following completion of the PBR plan.

In the PBR context, this practice of relinking revenues and costs is commonly referred to as "rebasings" and the resulting rates are used as starting (or "going-in") rates for the next PBR term. However, these rates may also be charged to customers without engaging in a further PBR plan, as they are consistent with the traditional cost-of-service regulatory framework.

At this time, given that less than two years remain until the end of the current PBR term, the Commission wishes to engage the DFOs and consumer groups to structurally assess the approach to distribution rate regulation in Alberta following the expiration of the current PBR plans. Accordingly, the Commission is initiating two streamlined related processes: (i) review and assessment of legacy PBR performance; and (ii) a cost-of-service review to establish 2023 rates. Each of these initiatives is explained below.

## **Evaluation of PBR in Alberta**

As mentioned earlier, the majority of regulated DFOs in Alberta have had rates set under a PBR framework since 2013. Before launching the 2018-2022 PBR plans, the Commission pointed to the limited experience parties had with PBR at that time, and in Proceeding 20414 made the following remarks regarding the assessment of success of the PBR framework:

14. In these circumstances, a complete review of the success of the existing PBR plans based on achieving all of the objectives for the plans as set out in Decision 2012-237 or a reconsideration of all elements of the plans, would neither be an efficient use of time and resources, nor is it likely to result in a meaningful, well-considered exercise at this time. Accordingly, the Commission will not undertake an assessment of the success of all of the various provisions of the existing PBR plans, nor will it consider a restructuring of a majority of the components of the plans at this time. The Commission expects to review the success of the PBR plans in meeting the objectives of PBR and consider possible major alternations to the entirety of the plans only when sufficient experience has been gained under the plans and sufficient information is available to undertake such an assessment. Therefore, any such review process will be initiated at a later date, within the context of a continuing PBR regime.

On January 28, 2021, the Commission received a request on behalf of The City of Calgary asking the Commission to initiate a review of PBR to assess whether PBR should be continued beyond 2022 and, if so, on what terms. Calgary submitted that sufficient experience and information is now available to conduct a review.

At this time, given the near-term completion of the present PBR plans, the Commission sees merit in evaluating the experience acquired with PBR thus far and identifying successes and shortcomings of the first (2015-2017 for ENMAX and 2013-2017 for the other DFOs) and second (2018-2022) PBR plans.

To this end, the Commission will gather input and feedback related to evaluation of PBR in Alberta through its eFiling System under **Proceeding 26356**. This will be a streamlined, rather than a traditional, proceeding with the primary purpose of facilitating stakeholder input.

A copy of Calgary's letter, as well as the Commission's letter setting out the streamlined process for this proceeding, are uploaded as exhibits in Proceeding 26356.

### **Cost of service review to establish 2023 rates**

In the Commission's view, following the expiration of the current PBR plans in 2022, it is necessary to review the DFOs' costs and revenues to achieve the following objectives: (i) identify efficiencies achieved by the DFOs during the 2018-2022 PBR term and pass the benefits on to customers; (ii) realign the DFOs' costs and revenues and examine the DFOs' forecast costs and rates to ensure they are reflective of the economic situation in Alberta; and (iii) assess actual DFO costs in the 2018-2022 PBR term for the purposes of approving 2023 opening rate base and to ensure forecasts are justified based on the prior-period actuals. In light of these objectives, notwithstanding the outcome of the PBR evaluation initiative discussed above, the

Commission has determined to proceed with a one-year cost-of-service review based on 2023 forecast costs, including the assessment of prudence of actual costs incurred by the DFOs in the 2018-2022 PBR term.

To further enhance regulatory efficiency, the rates approved for 2023 under this cost-of-service review may be used as going-in rates for any subsequent PBR term, after considering the outcome of the PBR evaluation initiative.

The Commission recognizes the potential for significant regulatory burden associated with undertaking a cost-of-service review of six DFO applications and is looking to employ alternatives to a traditional line-by-line review of utilities' forecast costs. In addition, the Commission wishes to adopt a process that is efficient (comprising a year or less of process time, inclusive of decision release) and provides certainty to DFOs and customers through prospective ratemaking. The Commission is commencing **Proceeding 26354** to determine streamlined alternatives to the traditional line-by-line review of utilities' forecast costs.

Additional details regarding this initiative are provided in the Commission's correspondence on the record of Proceeding 26354.

### **Participating in the above stakeholder consultations**

Concurrently with the release of this bulletin, the Commission is issuing a notice of application inviting any interested parties to participate in the aforementioned proceedings. Statements of intent to participate for both proceedings are due by **4 p.m. on March 10, 2021**.

The Commission has pre-registered the six distribution utilities under the 2018-2022 PBR plans as participants in proceedings 26354 and 26356. The Commission has also pre-registered intervening parties that actively participated in prior PBR-related proceedings; namely, The City of Calgary, the Consumers' Coalition of Alberta, and the Office of the Utilities Consumer Advocate. The Commission requests that these parties confirm their contact information for the above proceedings in the Commission's eFiling System and update it if required. If any pre-registered party does not wish to participate, it may change its status to "Inactive" in the eFiling System to the proceeding(s).

Any questions or comments with respect to the matters considered in this bulletin should be directed to Olexandr Vasetsky at 403-592-4417 or by email at [olexandr.vasetsky@auc.ab.ca](mailto:olexandr.vasetsky@auc.ab.ca).

Alberta Utilities Commission