Stakeholder Comments on Draft Report

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Options for Enhancing the Design of the Regulated Rate Option (RRO)

Stakeholder Comments on MSA DRAFT

July 19, 2017

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On behalf of the Federation of Rural Electrification Association (AFREA) Members, thank you for the continued opportunity to comment on and respond to the draft of the report to the Minister of Energy concerning the review of Options for Enhancing the Design of the Regulated Rate Option (RRO). As the RRO is an integral part of the services provided by each Rural Electrification Association (REA) within the AFREA, it is imperative that stakeholder engagement in this process is structured, detailed, and given proper time and consideration as changes to the RRO will impact REAs. The thoughts and views expressed are representative of REA members of the AFREA. This document provides responses and comments on the June 1, 2017 MSA Report to the Minister of Energy regarding the Options for Enhancing the Design of the Regulated Rate Option. The comments provided are meant to be factual and straightforward, but moreover this response is intended to be respectful and constructive. As such the AFREA appreciates the opportunity to further provide comment and input to this process.

Response Outline

Report Reference: List of Figures and Tables

There is notable inconsistency in the time frames selected for presentation of information. As the MSA is providing an unbiased evaluation of RRO options the data for all tables and figures should be a consistent timeframe across all analysis. Without doing so it appears that the MSA is selecting dates and time periods to make different points in different sections of the report. For instance in Figure 15: Comparison of Equalized Bills in the ATCO Zone, the MSA uses 2014 data for the comparison which is old data and presents a perspective that may not be consistent with 2015, 2016, and YtD 2017 data. It is requested that a consistent time frame is used and that the most up to date information available is provided. We would ask that all data should be for standard period, and we would suggest five years would be appropriate; from 2012 to Year to Date 2017.

Report Reference: Options to Enhance the RRO

Single Buyer

Although AFREA REA members do not agree with the single buyer concept, the AFREA REA members disagree with the assertion that the costs associated with establishing a new entity, or ensuring that an existing entity has the necessary expertise and independence to undertake this role would be significant. The statements made around central procurement need to be justified with actual data or at least the MSA should provide insight into the processes that the MSA views as expensive to implement. Identification of capable parties could be undertaken through a request for proposal.

Energy Sourcing Options

The MSA's comment regarding using monthly hedges or pool price flow through in combination with equalized billing is overly complex and would require the use of deferral accounts to achieve. The administrative cost of achieving this isn't worth the effort to gain energy rate stability.

Further, the transition time to implement any new RRO product would be significant. Of note, the large RRO Providers in the province (DERS/EEC/EEA) have been allowed six months to implement new EPSPs that have only minor variations on existing protocols. With minor changes taking 6 months as the precedent, a major transition would logically take significantly longer. The REA members of the AFREA would suggest not less than 18-24 months of implementation would be necessary, which would mean any implementation of the new product could be as late as 2020. Attempting to expedite this process in a manner that resulted in financial harm an entity with existing RRO hedges past the implementation date would create grounds for legal action.

Billing Options

The MSA comments regarding the cost and difficulty to move customers to a new billing platform appear dated. Although this is a notably large transition the infrastructure is already in existence and in use, so there is minimal system design to consider. Multiple smaller RRO Providers and REAs have made these billing provider switches recently without issue or significant costs. The scale effect in a properly designed billing system is minimal, and as RRO customers are billed via Tariff Bill Files, there is no settlement adjustments (interim, final) that need to be accounted for. There are many billing providers that would agree to service the RRO customer base on a fixed fee per site basis.

Report Reference: 2 History of the RRO

In general this overview shows that regardless of the recommendation of the stakeholders or the MSA, history has shown that the GoA may not follow the recommendations provided to them by independent bodies, such as was the case with the Retail Market Review Committee (RMRC). The multitude of recommendations created by the RMRC, were effectively dismissed and/or never implemented.

Report Reference: 3.2 Regulatory Cost

The MSA seems focused on intervener costs in this section, however there is no mention of the Regulatory cost and burden that the RRO customer pays for based on their regulatory costs that are incorporated in the totality of the RRO rate (energy and non-energy).

Report Reference: 3.4 Energy Price as a Percentage of Energy Bills

Figure 4

As previously stated this should include the most up to date information including the 2017 Distribution, Transmission, Local Access Fees and Rate Riders. As of 2017 the energy portion of the bill dips below 15% in some territories, so this figure is not representative of the current RRO state, nor the state for what appears to be the foreseeable future.

Report Reference: 3.5 RRO Rates Vary by Rate Class

We would argue that all stakeholders would consider this cross subsidization, especially the AUC. By AUC standards this is clearly cross subsidization.

Report Reference: 4.0 The Competitive Retail Market Today

Figure 11

Comparing monthly products to longer term products (1, 3 and 5 year) is like comparing the price of apples to oranges. Annual products are notably different than monthly products. If a consumer desires month to month exposure with monthly pricing then the obvious choice is the RRO, however if the consumer wants longer term price fixing then they will select the appropriate product.

Report Reference: 5.1 Single Buyer

Advantages

- It appears that procurement administration costs “may be” reduced with a single buyer is in question. Without the specific dollar value associated with the assumption it appears as an assertion rather than a point of fact. Providing administrative cost data, non-energy cost data, and regulatory burden data would remove any bias and would allow all stakeholders to see the amount and determine whether the cost value savings would be material or not.
- The REA members of the AFREA feel that moving to a single buyer would have no effect on the competitive retail market.

Disadvantages

- Centralizing load forecasting and moving to full load contracts would create a lot of risk for consumers in that if one entity was wrong, everyone would be in a negative financial position.

Report Reference: 5.2 Energy Sourcing Options

5.2.2 Long Term Forward Market Purchases

Advantages

- Why is reducing Month to Month volatility better than say Quarter to Quarter or even Year to Year? Was this assumption based on budgeting patterns of RRO consumers? If the annual RRO commodity rate jumped $0.03/kWh does the consumer really benefit from absorbing that over an entire year?

Disadvantages

- If the concept of monthly attrition risk is considered damaging, why would the Government want to increase this risk exponentially and then create a true up to balance this out. The burden of approval and the timeline to make this happen would create significant regulatory burden and confusion with the RRO consumer.
- Forecasting the term accurately will definitely be difficult and if position risk is priced properly this would be a very significant cost.
- Retailers have many levers to adjust to match or beat these rates; long term hedging will not negatively affect the retail market. Also no one really considers a one year rate a long term guarantee; in fact one year rates have the lowest uptake of all retail rates. Further, if the RRO rate is higher than current retail rates because the market prices fall after the RRO hedges have been made, the RRO providers will see significant attrition and will be left holding a long position at a price above the current market, resulting in significant losses. These losses will simply be passed through to the remaining customers thus exasperating the downward spiral of RRO consumers.
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5.2.3 Pool Price Flow-through

Creating a variation of this option that is overly complex and included changing the RRO Regulation to allow for energy deferral accounts completely defeats the purpose of having a flow through rate. A proposal such as this simply increases administration costs and add complexity to consumer's bills.

Report Reference: 5.3 Billion Options

5.3.1 RRO Billing by RRO Providers

Disadvantages

- The REA members of the AFREA wouldn't consider co-branding to be a disadvantage; it already exists and was part of the RMRC recommendations. As such, it's not a potential but more of a known problem that was never addressed.

5.3.3 Centralized Billing and Customer Service

Disadvantages

- Centralized billing and customer service is unlikely to see significant cost advantages or economies of scale in the short term. This is probably the easiest and most cost efficient manner to serve the RRO customer base, but will likely never be adopted due to the stranded costs for billing system development that the RRO providers are charging the customer base.
- The real disadvantage here is that billing aggregation would eliminate the ability for customers to receive multiple commodity bill on one invoice which has been proven to a be a differentiator when choosing a retailer and is one of the positive aspects of the current model that allows for Retail and RRO services to be billed together out of a single system.

5.3.4 Equalized Billing

If, as proposed by the MSA, the cost of all invoice items are smoothed the bad debt and working capital and associated costs to the RRO provider increase which are then passed on as an adder to the consumer. The REA members of the AFREA state that this is not an objective way to manage a rate base, and is something the REAs have traditionally avoided or not been allowed. Changing the RRO regulation to allow for this type of deferral treatment does not seem worth the effort if the majority of costs are going to flow through as rate riders in a deferral manner.

To be clear Adjustable Equalize Billing is just balanced billing with a monthly true up/deferral adjustment. If anything this reduces price transparency to the customer which we believe is not an enhancement to the existing structure.

It is unclear as to why the customer would be exposed to Pool Price with this rate structure. Is the MSA suggesting that costs above or below the expected balanced amount would be charged at Pool Price? Or is the assumption that this balanced plan would only be applicable if the rate structure was flow through?

There is a notable absence regarding the changes that would be needed to the RRO Regulation to account for any of the deferral accounts. This is not a change that should be taken lightly based on historical AUC decisions on this matter.

5.3.5 Bill Content

The MSA has proposed changes to the bill format including the inclusion of a pie chart showing the breakdown of customer costs, but the question is who will pay for these changes? In the end these types of modifications have historically been born by the consumer, is this information not something that could be available via the UCA's website. Many other customer inquiries are directed that way.

5.4.1 One RRO Rate for all Albertans

This is not a workable solution due to cross subsidization.

5.4.6 Cost-Deferral Accounts

The negotiation and establishment of Commodity Risk Compensation was not responsible for major delays in the approval of the 2014-18 EPSPs (Energy Price Setting Plans), in fact the commodity risk compensation structure applied to the EEA, EEC, and DERS RRO EPSPs have been approved for some time. The Beblow method of Commodity Risk Compensation was approved in 2015, and what is remaining to be finalized is protocol, procurement process, pricing, compliance. All of these are things that the MSA points out would be difficult to manage in a new system, therefore, it is no surprise that they are being disputed now. This is important because switching to a new structure will have the same problems that we are struggling to manage currently.

5.4.7 RRO Integration with Time-of-Use Metering

In this scenario, all sites that are eligible for the RRO would have to be equipped with a Time of Use (TOU) meter in case they ever moved to the RRO, but the entity ultimately responsible for paying for this is not identified. It would be a considerable expense and would need to be managed by the Wire Service Providers and Settlement providers as there is no time of use profile. The view of the REA members of the AFREA is that this proposal does not solve the root problem of month to month bill variability, but will in all likelihood increase costs to RRO consumers.

Report Reference: 6 Transition

6.1.1 Capacity Market Considerations

The treatment of capacity costs is not within the scope of the minister's request, but the hope would be that this charge is visible on the consumers' bill and readily recognizable as a specific charge assignable to capacity. Otherwise, the Government is just playing a shell game with costs and hiding the fact that capacity is an additional cost on their invoice. Consumers need to understand the true costs of moving to a capacity market, and if this is hidden within another line item on their invoice that is misleading.

Report Reference: 7.3 Rural Electrification Associations

The lack of buying power for REAs does not always result in higher procurement costs, in many situations their ability to be nimble and make quick hedging decisions allows for more strategic procurement.

With respect to the ability of REAs to provide equalized billing, for the most part REAs already provide budget billing so the concern regarding the REAs ability to secure credit is completely misplaced.

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July 18, 2017

Mr. Mark Nesbitt
Manager, Retail and Investigations
Alberta Market Surveillance Administrator
Submitted via email

RE: MSA Consultation on Options for Enhancing the Design of the Regulated Rate Option (RRO)

Dear Mark,

Thank you for the opportunity to provide comments on the MSA draft report to the Minister of Energy on options for enhancing the RRO. Specifically, the Minister asked the MSA to "*conduct an analysis and provide a report with options for enhancing the design of the Regulated Rate Option, to provide long-term, stable and affordable prices for Alberta's electricity consumers into the future.*". As a retailer and generator, ATCO can offer feedback from both perspectives.

ATCO's position remains that the RRO should be eliminated in line with the recommendations of the 2012 Retail Market Review Committee (RMRC). Several reforms to the electricity industry are currently underway (RRO cap, capacity market development, coal phase-out, carbon pricing, renewable energy programs, distributed connected generation review, etc.) and tweaking the current RRO is not necessary. Should the government propose eliminating the RRO in line with the RMRC recommendation, ATCO would be prepared to work with stakeholders to enable an orderly transition to a fully competitive retail market.

ATCO believes that a fully competitive retail marketplace will provides options for consumers to have a long-term, stable, and affordable price for electricity.

In response to the specific questions that the MSA has asked, ATCO offers the following:

Option 5.1 – Single RRO Buyer

Moving to a single buyer is a major undertaking that would require additional consultation on numerous issues, including the impacts on competitive retail, how load forecasts will be performed and by whom, credit requirements, cost estimates and selection of the single RRO provider. ATCO believes adding consideration of a single RRO buyer to the market reforms, currently underway is unwarranted. The benefits are unclear and the risks of additional costs and disruption are significant. The question of a single rate is addressed below under Miscellaneous Options (5.4).

Option 5.2 – Energy Sourcing Options

This option contemplates changes to procurement, including advanced procurement of longer term products or a simple pool price flow-through.

Changes to procurement within the RRO were previously evaluated in the 2012 Retail Market Review Committee (RMRC) which noted that moving to a longer-term model would create negative impacts on the competitive retail market, specifically:

> *Implementing mandatory, long-term procurement subject to regulatory review, prudential assessment and risk allocation would create a regulated alternative that would compete directly with retailers' core business. Customers might in many respects be better served by a return to full cost-of-service–based regulation than by such a hybrid approach, which would essentially sterilize the retail market.*[1]

ATCO agrees with the conclusions of the RMRC that advanced procurement of longer term products would be deleterious to the competitive retail market, which already provides this option to consumers.

Furthermore, competitive retailers already offer pool price flow-through. Using flow-through pricing for the RRO would leave it exposed to market volatility, which is inconsistent with the minister's desire for stable prices. The MSA suggests that volatility could be mitigated through longer-term averaging, or through deferral accounts to stabilize the prices. Using such an ex-poste approach would be detrimental to liquidity in the forward market and would have the same deleterious impact on the competitive retail market.

Option 5.3 – Billing options

Billing options considered include billing by RRO providers (status quo), by competitive retailers, or centralized billing. Bill smoothing including Equalized Billing, and use of deferral accounts are also considered.

ATCO believes that making billing changes to the RRO will add unnecessary costs and does not support the movement to a fully competitive retail market as recommended by the RMRC. Introduction of bill smoothing, or deferral accounts will also add unnecessary complexity and could have other unintended consequences. RRO Providers have made significant investments in their billing infrastructure (which is recovered through rates). Introducing more change, or moving responsibility for billing to a single entity would result in increased costs to the consumer. Depending on the length of the deferral period, the use of deferral accounts could cause cross-subsidization between customers who switch from the RRO to competitive contracts and those who do not, or it could result in punitive exit fees. An example of the former could see remaining customers shoulder RRO fixed costs borne by the switching customers for longer deferral periods. Attempts to remedy this would add administrative complexity and costs. On the other hand, if the deferral period is short, there will be little smoothing of the volatility in the pricing of the RRO.

[1] Retail Market Review Committee (https://open.alberta.ca/dataset/c4b279c0-63a5-4a87-87ca-cbd5e4152794/resource/4246f8f0-2572-413f-8cec-d9ec28452fdd/download/RMRCreport.pdf)

5.4 Miscellaneous Options

Miscellaneous options considered here include, One RRO Rate, Eligibility for the RRO, Entry and Exit Fees, and 'Greening' the RRO. ATCO believes that these options add complexity and also undermines the movement to a full competitive retail market.

Regarding the single rate, ATCO understands that option as a proposal for a single energy price across the RRO (differences in distribution tariffs will still exist, as will varying administrative fees). Looking at energy costs there has been less than a 0.5 ¢/kWh range in the monthly RRO since 2016 amongst the large RRO providers,[2] indicating a strong natural convergence in RRO already.

Finally, the original GOA request to the MSA was for options that would provide long-term, predictable, stable and affordable electricity rates with minimal regulatory and administrative costs. ATCO believes that tweaking eligibility for the RRO, introducing entry and exit fees and adding environmental riders through 'Greening' the RRO will add complexity and costs without meeting the original GOA objectives.

6. Transition - when and how a change to the RRO should occur?

The RRO has been reviewed on a regular basis, with the last major review occurring in 2012 (Retail Market Review Committee) which recommended that the RRO should be phased out.[3] Given changes to the wholesale market design by 2021, a prudent approach will be to consider phasing out the RRO within this time frame. Until there is a fulsome discussion on the recommendations of the RMRC recommendations we recommend there be no changes to the RRO.

Should you have any further questions, please don't hesitate to contact us.

Sincerely,

Sarah Francis
General Manager, ATCOenergy

Wayne Stensby
Managing Director, ATCO Electricity Global Business Unit

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[2] Based on an analysis of UCA collect RRO prices.

[3] Recommendation also included the introduction of a "provider of last resort" to protect vulnerable customers. ATCO believes that that service will always be essential as it provides a safety net for customers that are unattractive to retailers for reasons of creditworthiness or otherwise.

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July 18, 2017

Mr. Mark Nesbitt
Manager, Retail and Investigations
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500 – 400 5th Avenue SW
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Via Email: stakeholderconsultation@albertamsa.ca

Dear Mr. Nesbitt:

Re: Options for Enhancing the Design of the Regulated Rate Option (RRO) – Request for Comments on Draft Report

Capital Power provides this letter in response to the Notice to Market Participants and Stakeholders[1] (the "Notice") issued by the Market Surveillance Administrator ("MSA") on June 20th, 2017. The Notice includes the MSA's Draft Report to the Minister (the "Draft") regarding options to enhance the design of the Regulated Rate Option ("RRO") and requests comments from stakeholders for improving the report by July 18th, 2017.

Capital Power reiterates its support for transitioning the RRO to longer term (up to one year), competitive, centralized procurement through the wholesale and forward markets, and aligning the timing of any RRO changes with the capacity market implementation. In Capital Power's view, a longer term hedging option can best achieve the Government of Alberta's ("GoA") objectives, not only with respect to enhancing the RRO design, but also with respect to achieving the GoA's commitments regarding the capacity market transition – ensuring fair treatment of existing investments and a level playing field between existing and new capacity in the new market.[2] Key to achieving all of these objectives is designing integrated and well-functioning capacity and energy markets, and an overall electricity framework that is sustainable and supports investment.

Capital Power is concerned that the MSA's Draft does not fully account for the various risks associated with implementing a pool-price flow-through option – specifically the risk of political interference in the wholesale market should prices become volatile, and the potential consequences of reduced forward market liquidity. A more detailed discussion of these risks is provided below.

Pool Price Flow-through Introduces Additional Risks

Under a pool price flow-through option consumers are most exposed to price volatility. This volatility increases the risk of political interference in the wholesale market. While it is generally understood that a capacity market framework may result in less volatility than the current energy-only market framework, the potential for unanticipated supply and/or demand events, such as major outages or extreme weather, still exists. Should pool prices become volatile in a given month or series of months under a pool price flow-through model, the government might be inclined to make changes to the wholesale market to stabilize prices and mitigate cost impacts to consumers. Such actions would introduce additional risks for existing generation investments and may impact their ability to recover costs and earn a fair return. The heightened risk of political interference may

[1] Market Surveillance Administrator, *Notice to Participants and Stakeholders Re: Options for Enhancing the Design of the Regulated Rate Option – Request for Comments on Draft Report* (June 20, 2017).
[2] Alberta Government, *News Release: Consumers to benefit from stable, reliable electricity market* (Nov. 23, 2016) https://www.alberta.ca/release.cfm?xID=44880BD97DCDC-D465-4922-25225F9F43B302C9

also undermine investor confidence, which could impact new generation investment decisions and supply adequacy. New market participants would likely be hesitant to invest in an unstable policy environment.

Irrespective of the level of volatility in Alberta's new capacity market, adopting a pool price flow-through model would tie RRO rates to a market that fundamentally relies on an element of volatility to effectively function. Volatility is integral to providing an effective price signal in the current energy-only market and will remain a necessary element of the wholesale energy market in Alberta during the transition to a capacity market and after its implementation. An effective wholesale price signal is a necessary part to ensuring supply adequacy. In energy-only markets and in capacity markets alike, an effective price signal in the energy market helps to provide the signal for new investment; inform decisions to invest in certain types of technologies, re-power or retire generation assets; and support decisions by load to forward contract, hedge, and/or invest in behind-the-fence generation.

Pool Price Flow-through Undermines Liquidity

The MSA's Draft acknowledges that under a pool-price flow through model "[f]orward market volume in the prompt months may be reduced by about a third if RRO energy is no longer purchased forward," and that "[t]his may lead to a downward spiral in forward market liquidity."[3] The Draft also notes that a less liquid forward market would present issues for generators and loads trying to hedge and may present challenges for new entry, however this effect would be mitigated by the introduction of capacity payments.[4]

Capital Power believes that the MSA's Draft has understated the potential consequences of reduced forward market liquidity. Generators and large industrial consumers use the forward market to manage and mitigate risk. Reduced forward market liquidity would impact the ability of market participants to manage risk, which would ultimately be reflected through higher energy and/or capacity costs paid by consumers. A less liquid forward market may also present a barrier to entry and could result in lower levels of competition in the market, or a higher risk premium on the capacity payment required by new entry.

Concluding Comments

For the foregoing reasons, and in order to properly compare the options assessed, Capital Power requests that the MSA's final report acknowledge the additional risks posed by a pool price flow-through model identified above – specifically the risk of political interference in the wholesale market should prices become volatile, and the potential consequences of reduced forward market liquidity.

Capital Power believes that in the interest of designing a sustainable market framework, the RRO should be transitioned to longer term hedging (up to one year). A longer term hedging option achieves the GoA's objectives, limits potential design and investment risks in the wholesale market, and helps enable a more effective market by preserving and supporting forward market liquidity – which is necessary to support effective price discovery and formation as well as hedging for load and generation. Conversely, a pool price flow-through model would reduce forward market liquidity, expose RRO customers to potential price volatility, and introduce additional investment risk.

Capital Power appreciates the opportunity to provide its comments on this initiative. Please contact me at (780) 392-5294 if there are any questions or if you wish to discuss Capital Power's comments.

Regards,

Grant Berry

Grant Berry
Senior Advisor, Regulatory and Environmental Policy

cc: D. Jurijew, Vice-President, Regulatory and Environmental Policy

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[3] Market Surveillance Administrator*, Options for Enhancing the Design of the Regulated Rate Option: MSA Report to the Minister of Energy – DRAFT FOR CONSULATATION* (June 1, 2017), p. 30.
[4] Ibid, p. 30-31.

CITY OF Lethbridge

Infrastructure Services (Electric)

THE CITY OF Red Deer

ELECTRIC, LIGHT & POWER DEPARTMENT

June 28, 2017

Mark Nesbitt
Manager, Retail and Investigations
The Alberta Market Surveillance Administrator
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Dear Mr. Nesbitt,

SUBJECT: *Options for Enhancing the Design of the Regulated Rate Option (RRO)*

As per your June 20th letter inviting comment on the MSA's draft report to the Minister, the City of Lethbridge and the City of Red Deer offer the following.

Firstly, the Lethbridge draws attention to a material factual error in Section 7.1, in which the MSA speculates that Lethbridge may have trouble "access(ing) the credit and collateral that may be necessary to procure long-term forward products." This leaves the impression that the City of Lethbridge must provide credit and collateral to the wholesale supplier when in fact, the wholesaler provides security to the city. A municipal RRO provider may require additional security of some wholesale suppliers for longer-term contracts, but Lethbridge found this was not a material burden for suppliers when it procured longer-term supply in the period prior to the current RRO Regulation.

Additionally, the cities note that the regulatory process described in Section 3.1, regulatory costs in Section 3.2, and timelines in Section 6 are exclusively focused on AUC-regulated utilities. This portion of the report does not provide any information on the regulatory processes, costs, and timelines for the seven municipally-owned utilities identified in the report's Appendix A. This omission is relevant because cities such as Red Deer and Lethbridge do have longstanding processes in place (which are similar but do vary in some important respects) that already help achieve the Minister's stated objective of reducing regulatory and administrative cost.

As a final comment, the cities note that the MSA has not necessarily articulated how some options it presents would directly affect and help achieve the Minister's stated objectives (i.e. affordability, stability, reduced cost). The most prominent examples include the MSA's discussions of bill content, RRO eligibility, renaming the RRO, and 'greening' the RRO, but even when a relationship is explicitly noted, the MSA's view is not always fully developed. This leaves the reader, who does not necessarily posses the MSA's market expertise, to evaluate which options are more immediate and credible and which options are more abstract or tenuous.

Along these lines, we suggest that the MSA's report could be improved with concluding remarks for each section that explicitly state which of the three stated objectives could be affected and whether this relationship is direct, indirect, empirically proven, or speculative. Providing this important context will greatly assist the Minister to assess and weigh all options. Not all advantages and disadvantages can and should be given equal weight and this type of analysis should be brought to the Minister's attention, all the while being consistent with the request that the MSA not provide recommendations.

We trust that the above is constructive and in keeping with the spirit of the MSA's request for suggestions to improve the report. Should you have any further questions or comments, please feel free to contact Stewart Purkis at (403) 781-7690 or Jim Jorgenson at (403) 342-8341.

Yours truly,

<submitted electronically>

Stewart Purkis, City of Lethbridge Electric Manager
Jim Jorgenson, City of Red Deer Electric Manager

cc. Michael Turner, Chymko Consulting

July 18, 2017

Market Surveillance Administrator
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Attention: **Mark Nesbitt**

RE: **Direct Energy Regulated Services ("DERS") Comments on the Market Surveillance Administrator's ("MSA") Draft Report on Options for enhancing the Design of the Regulated Rate Option ("RRO")**

DERS is writing in response to the MSA notice dated June 20, 2017 requesting comments from stakeholders on the MSA's draft report regarding options for enhancing the design of the RRO. DERS would like to thank the MSA for the immense effort put forth to draft the report. DERS is satisfied with the MSA's analysis of its submissions regarding the options for enhancing the RRO. While DERS reiterates all comments made in its initial consultation, DERS supports the balanced arguments put forth by the MSA.

To enhance an understanding of certain issues highlighted in the report, DERS would like to reiterate its position on deferral accounts and implementation costs. The MSA has presented options involving pool price flow-through and applying billing equalization to all customers. However, DERS believes that the disadvantages associated with these options do not adequately represent the increases in rate volatility and costs associated with significant modifications to existing billing systems.

Deferral Treatment Shows Potential for Additional Volatility and Confusion:

In Section 3.7, DERS believes that additional clarity could be achieved by mentioning that deferral treatment inserts additional volatility within rates above and beyond the volatility associated with the underlying commodity. It is imperative to make this distinction and is readily apparent within the history of DERS' Gas Cost Flow-through Rate ("GCFR"). The GCFR fluctuates to a greater extent than the market price for natural gas and would translate into greater monthly volatility for regulated electricity customers, which the government has stated it would like to avoid.

Furthermore, transferring the commodity risk from RRO Providers to consumers is the very thing the government is attempting to avoid. Through their expertise, the RRO Providers are in a better position to mitigate the risk associated with commodity price. The exaggerated swings and greater volatility from deferral treatment would not be a good solution for those customers with low incomes who rely on a stable monthly bill, and create further confusion relating to differences in monthly rates.

Pool Price Flow-through Would Increase Volatility and be Costly to Implement:

Although regulatory efficiency may be achieved by eliminating forward procurement and flowing the pool price of electricity to customers, this methodology does not protect regulated customers from price volatility, which is one of the stated goals of the government. Recognizing that the pool price flow-through may be a tempting alternative given the current pool price environment, the market can change quickly and this alternative exposes consumers to all price fluctuations with no advance notice of the price. The calculation is also confusing for customers, especially those that like to understand the details of their bill. Furthermore, this option is costly to implement from a retailer perspective, as billing systems would need to be programmed to calculate and apply a flow-through rate rather than the monthly fixed price applied today. Government would also want to consider the cost of customer communications and the cost associated with the increased number of calls to the call center. The MSA noted that this option may be paired with equalized billing to reduce volatility, however, equalized billing is an option already available to customers who desire it (approximately 10%) and is seen as undesirable by many customers. Also, depending on how it was implemented, it could increase working capital requirements. Similar to the flow-through rate, the government would need to consider the costs associated with educating customers on the change and the costs associated with handling increased calls in the call center, both as the changes are implemented and as true ups take place.

Supporting the Government's Mandate:

DERS is very conscious of the Alberta government's mandate to provide long-term, stable and affordable prices for electricity consumers and is grateful for the opportunity to continue collaborating with other RRO Providers, the MSA and the provincial government to ensure that relevant expertise and experience is carefully considered when examining possible changes. Given the number of expected changes to the electricity market, DERS remains concerned that RRO customers or the risk profile for RRO Providers will be significantly impacted. Although a great deal of speculation has occurred, the outcome of these changes is currently unknown. Ultimately, implemented RRO changes must offer RRO Providers the flexibility to mitigate negative impacts to their customers, which may include higher costs and increased volatility.

As stated previously, DERS believes the existing RRO is working well, however, small changes could provide the outcomes sought by the government. As DERS has outlined in its submissions, certain suggested changes such as pool price flow-through, deferral accounts and centralized procurement come with significant costs and risks for customers and would go against the government's goals. In summary, DERS does not consider that significant changes are necessary at this time, as these changes will come at a significant cost and create more uncertainty in an already ambiguous market.

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July 18, 2017

Market Surveillance Administrator
#500, 400 5 Avenue SW
Calgary, AB T2P 0L6

Attention: Mr. Mark Nesbitt
Manager, Investigations and Retail

Dear Mr. Nesbitt:

Re: Comments on Draft MSA Report entitled, "Options for Enhancing the Design of the Regulated Rate Option" ("Draft Report")

On April 21, 2017, the Market Surveillance Administrator ("MSA") announced that the Minister of Energy ("Minister") had directed it to "conduct an analysis and provide a report with options for enhancing the design of the Regulated Rate Option to provide long-term, stable and affordable prices for Alberta's electricity consumers into the future."

At that time, the MSA sought comments from stakeholders on four specified topics.

1. Whether there should be one RRO rate for all eligible consumers (or customer category) in Alberta.
2. Changes to procurement, including advanced procurement of longer term products, centralized procurement or options that do not require advanced procurement.
3. Introduction of deferral accounts or changes to bill smoothing.
4. When and how a change to the RRO should occur.

After considering the comments received from stakeholders on these topics, the MSA issued a Draft Report for comments on June 20, 2017. In the accompanying notice, the MSA asked that stakeholders provide specific comments or suggestions for improving the Draft Report.

ENMAX appreciates the opportunity to provide its comments on the Draft Report. As noted in its earlier submission, ENMAX has been an RRO provider for the past 13 years and currently provides service to over 175,000 regulated rate customers in Calgary, Red Deer, Ponoka, Fort McLeod and

Cardston. Accordingly, ENMAX has both significant experience with the operation of the RRO and would be materially impacted by any changes to the RRO Regulation.[1]

ENMAX's comments are organized into those at the general level, those that relate to the four categories of enhancement options, and those that relate to the transition.

1. General Comments:

ENMAX commends the MSA for its work on the Draft Report. The report provides a good overview of the operation and history of the RRO. It also provides a reasonably balanced discussion and analysis of the various options for RRO enhancement.

As noted in its initial submission, ENMAX remains supportive of the RRO as an option for consumers who do not select a competitive energy retailer. In general, ENMAX continues to believe that minor changes to the RRO Regulation are the best way to align the Minister's objectives with the RRO characteristics. This approach would, as the Draft Report makes clear, avoid the costs and potential pitfalls of major consumer policy changes during a period of significant market transition.

ENMAX agrees with the MSA's description of the competitive retail market set out in section 4 of the Draft Report, and in particular, the observations that the current retail market is competitive; that the competitive retail market provides benefits for consumers over and above the basic RRO service; and that the impact on the competitive market needs to be carefully considered before any changes are made to the RRO.

ENMAX also agrees with the cautionary note expressed by the MSA in section 6.1.1 of the Draft Report; namely, that given the potential impact of the planned capacity market, it would be risky to make significant changes to the structure of the RRO until the design and implementation of this new market is clear. ENMAX would extend this cautionary note to some of the analysis presented in the report. These analyses are based on historical energy-only-market information and may not be reflective of the future market results.

2. Comments on the Options to Enhance the RRO:

a) Single RRO Buyer

ENMAX does not support the option of moving to one RRO buyer for the Province as there is no evidence that the current approach is not providing good value for consumers.

[1] Pursuant to the Intercorporate Services Agreement between ENMAX Power Corporation and ENMAX Energy Corporation, effective July 1, 2005, as amended effective January 1, 2006, April 28, 2006, April 30, 2008 and April 13, 2011.

This conclusion is supported by the discussion in the Draft Report. Pages 25-26 make it clear that such a move would, at best, produce small savings for customers while creating market power problems, damaging market liquidity, and reducing the sources of credit available to support the RRO.

Any move to a single RRO provider would also mean compensation for the RRO providers that are required to exit this service. ENMAX expects that the process to arrive at appropriate level of compensation would involve consultation with the impacted entities and the payment of damages, similar to the coal compensation process.

b) Energy Sourcing Options

Long-term Forward Market Purchases: ENMAX agrees that enabling longer-term purchases will allow RRO providers to create greater stability and predictability for RRO customers. ENMAX recommends that the maximum procurement term should be set at one year and that appropriate risk compensation be provided to RRO providers.[2]

Pool Price Flow-Through: While simpler, the move to the pool price flow-through mechanism would be a significant change with no clear benefits for consumers. Importantly, as the Draft Report notes at page 30, this model would mean that consumers would not know the price that they were paying for their consumption until the end of the month – resulting in a very ineffective price signal and significant consumer confusion. A significant consumer education campaign would have to accompany this option.

c) Billing Options

Centralized Billing and Customer Service: ENMAX agrees with the analysis found on page 32 of the Draft Report, which shows little or no benefit and significant costs and transition issues from any move to centralize billing and customer care for the RRO.

One important disadvantage is missing and should be added to the Draft Report in ENMAX's view. That is the loss of the cost efficiencies and savings that some larger municipalities are achieving by having the billing for municipal services performed by the RRO billing and customer care providers. This approach spreads relatively high fixed costs of billing and customer care systems across a larger number of customers and services (e.g. water, gas and municipal services) and achieves economies of scale, while maintaining the benefits of having a localized service provider able to respond to questions and concerns. If the RRO service were to be centralized and removed from the shared invoices, the municipalities may need to make significant investments to provide their own billing and customer care systems for municipal services. This will almost

[2] With announced market changes, such as capacity market auctions and the expected online dates of renewable energy projects, ENMAX does not believe periods of longer than one year would be advisable at this time.

certainly increase costs for customers while increasing the potential for a negative customer experience while the new billing and customer care systems are developed and rolled-out.

d) Miscellaneous Options

One RRO rate for all Albertans: ENMAX believes that the regulatory and administrative burden associated with the setting of RRO rates is overstated in the Draft Report. A more focused and streamlined regulatory process would be a less disruptive and less costly way of addressing this concern than moving to one province-wide RRO rate.

A single rate for all eligible customers might confuse those who understand cost causation and rate class differences. It will also result in significant cost shifting between customer classes and between higher cost and lower cost service areas in the province. In ENMAX's view, the RRO rates should continue to reflect the cost to supply these different patterns and profiles, consistent with cost causation and risk management principles.

Entry or Exit Fees: ENMAX does not support the imposition of entry or exit fees for many of the reasons set out in the Draft Report. Such an approach would be a barrier to the competitive market development and could have punitive consequences for consumers under a number of potential scenarios.

Greening the RRO: ENMAX continues to believe that including a mandatory renewable component in the RRO procurement would be good public policy given the Government's climate leadership objectives. Setting this renewable component at a relatively modest level would address many of the bill impact concerns raised in the Draft Report. As the climate program progressed the level could be increased, keeping the year-over-year changes to a manageable level.

3. Comments in relation to the Transition:

ENMAX continues to support changes to the procurement length provisions (we have recommended up to 12 months) in the RRO Regulation. This change would require an approximate six-month implementation period to ensure an orderly transition of billing systems and the training of customer care staff.

To the extent additional changes to the RRO Regulation are contemplated, ENMAX believes that the optimal timing for such changes should coincide with the completion of the electricity market redesign, which includes the implementation of a capacity market.

* * * * *

ENMAX appreciates the opportunity to provide comments on the Draft Report and looks forward to seeing the final report from the MSA.

Yours truly,

Digitally signed by Joyce Cui
Date: 2017.07.18 14:17:42 -06'00'

Signed on behalf of

Andrew Barrett
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ENMAX Corporation

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July 18, 2017

Market Surveillance Administrator
#500, 400 5th Avenue SW
Calgary, AB T2P 0L6

Attention: Mr. Mark Nesbitt
Manager, Retail and Investigations

Dear Mr. Nesbitt:

Re: Options for Enhancing the Design of the Regulated Rate Options – Draft for Consultation

On June 20th, the Market Surveillance Administrator ("MSA") released the draft report to the Minister of Energy, *Options for Enhancing the Design of the Regulated Rate Option*. The report was prepared to advise the Minister of Energy on options that will ensure customers on the Regulated Rate Option ("RRO") receive predictable, stable and affordable rates for their electricity.

The MSA requested additional comments from stakeholders on suggestions for improving the report. EPCOR Utilities Inc. ("EPCOR") appreciates the opportunity to provide further comment to the MSA, and submits the following comments in respect of the MSA's request.

EPCOR's comments are organized to address key issues raised in the MSA's report and stakeholder submissions. Particular emphasis is given to those issues where additional context is needed from RRO providers.

Rate-Setting Structure

As stated in their draft report, the MSA indicates that the transition to a capacity market will likely render pool prices significantly less volatile. Through actions which mitigate volatility in wholesale prices, such as the prohibition of economic withholding, the MSA contends that the market fundamentals and inherent risk to consumers will decline. They go on to state that pool-price flow through may be advantageous as it would "*result in lower overall electricity prices for consumers since flow through rates would not have a forward market risk premium and regulatory costs would likely be reduced*" (p.29).

EPCOR disagrees with the statements of the MSA relating to pool price flow-through products, and contends that the conclusions drawn in the report are premature at this time. Design of the capacity market is ongoing and criteria around bidding, resource eligibility, and performance obligations remain undefined. Even with a transition in market structure, there will continue to be market fundamentals which may have profound impacts on volatility and prices which fall outside the control of regulatory agencies.

The rate setting mechanisms permitted by the RRO regulation should satisfy the Minister of Energy's objectives of long-term, stable and affordable rates regardless of future market conditions. Therefore, EPCOR strongly supports long-term hedging for its ability to reliably meet the Minister's objectives under all market conditions (discussed in more detail further below).

Centralized Procurement

The MSA's report considered whether all energy procured for the RRO could be administered through a central body. As the MSA states, "*there is some scope for regulatory and administrative cost savings, but these savings are relatively small compared to the total cost of providing the RRO*" (p.7). EPCOR agrees with some aspects of this finding, however, there are additional drawbacks that would arise through central procurement. Decentralized procurement has been successful in attaining fair prices for consumers and should be maintained.

RRO providers currently use a variety of approaches to procure energy on behalf of RRO customers. Replacing the current structure with a single buyer has the potential to result in higher costs due to the additional liquidity demanded for larger volumes of energy. This effect is readily observable in EPCOR's current RRO auctions, and occurs because sellers are neither willing nor able to sell infinite quantities at the lowest price. Therefore, additional demand which would materialize through central procurement will raise the price of electricity for RRO consumers in Alberta.

Prior to the legislated RRO procurement window being increased from 45 to 120 days in 2013, significant buying pressure arose during the 45 days leading up to a month as RRO providers sought to buy their entire volumes in that relatively short time frame. The result was material upward price pressure and higher rates for RRO customers. Forward market liquidity premiums will be reduced by spreading procurement across RRO providers and procurement methodologies.

Centralized procurement would also be detrimental to the market by impacting competitiveness. As centralized procurement would replace nearly 1,000 MW of procurement with a single buyer, the market would not benefit from the presence of a diverse group of group of buyers that are able to utilize different procurement mechanisms.

A centralized buyer would also lack the incentives that RRO providers currently have to attain the lowest possible prices for their energy. RRO providers have strong incentives to keep prices low to reduce attrition and customer switching. A centralized buyer would have no incentive to attain the lowest prices possible because RRO providers would be captive to it under the centralized procurement legislation.

Some stakeholders commented that a centralized RRO buyer would have more buying power, and would thus be able to command lower prices due to the larger volumes that it buys. However, because the regulatory framework requires RRO buyers to procure their customers' energy requirements in advance, even a large centralized RRO buyer will not have buying power in the forward market. Because sellers always have the option to sell, while RRO providers must buy energy to serve load, they are unable to exert greater influence on sellers through larger purchases.

Finally, if a centralized procurement agency were to perform the load forecasting and hedging functions on behalf of RRO providers, then the corresponding forecasting and commodity risks should remain with that agency and should not flow through to RRO providers or their customers. This would ensure that there is an incentive to perform these functions responsibly and cost-effectively. EPCOR believes that RRO providers already have strong incentives to perform these functions responsibly and cost-effectively on behalf of their customers, and such incentives would not be present were a government agency to administer centralized procurement.

For the reasons stated above, EPCOR believes that the best way to minimize these effects is to keep the procurement obligation in the hands of the RRO providers. With strong incentives to design and operate procurement processes with highly competitive design, RRO providers are best able to attain the lowest procurement prices possible for the benefit of their customers.

Long Term Hedging

Under the current RRO regulation, procurement of energy in the 120 days prior to delivery presents a significant impediment to RRO providers and their ability to deliver predictable and stable rates for consumers. With nearly half of all Albertans receiving energy through the RRO, and with many receiving the default rate because they do not qualify for competitive contracts, EPCOR strongly advises that the procurement of longer term products is necessary to ensure fair and stable rates for RRO customers.

Long-term hedging would reliably satisfy the Minister's stated objectives of long-term, stable and affordable rates under all market conditions. The MSA's report correctly acknowledged that many of the perceived disadvantages could be mitigated by design, including the use of staggered forward hedges of varying term lengths, and the use of full-load products.

As is stated in the MSA report, "*long term hedged products are provided by all competitive retailers and have proved popular with customers*" (p.28). While the MSA considers this to be a disadvantage to long term hedging by RRO providers, it is this exact reason that it should be considered as a solution to the Minister's stated objectives for the provision of RRO services.

Rate Differentiation

EPCOR continues to support the need in Alberta for differentiation in RRO rates. The idea of a single RRO rate was raised in several submissions, suggesting there is value in simplifying the RRO by applying a uniform rate across the province. EPCOR respectfully disagrees with this suggestion as it would run counter to the principles of cost-causation and discourage conservation. As the government implements initiatives to conserve energy and encourage energy efficiency, it is important to ensure the proper incentives and disincentives are in place to facilitate efficient consumption behavior.

Furthermore, rate differentiation would not significantly contribute to meeting the objectives of this RRO review of long-term, stable and affordable rates, as stated by the Minister.

EPCOR appreciates the opportunity to provide additional input the MSA's report. EPCOR would be pleased to respond to any additional questions or concerns that arise through this process.

Sincerely,

[Electronically Submitted]

Jay Baraniecki
Director, Energy Services
EPCOR Energy Alberta GP Inc.

Frances Murray
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6345 Dixie Road, Suite 400
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L5T 2E6

July 18, 2017

Via: stakeholderconsultation@albertamsa.ca

Mr. Mark Nesbitt
#500, 400 5 Avenue SW
Calgary, AB T2P 0L6

Dear Mr. Nesbitt:

RE: Options for Enhancing the Design of the Regulated Rate Option – Request for Comments on Draft Report

Thank you for the opportunity to provide input on this matter. Just Energy Alberta L.P. ("Just Energy") is generally supportive of the MSA draft report on enhancing the design of the Regulated Rate Option ("RRO") to the Minister of Energy dated June 1, 2017.

In support of the viability of the competitive retail market, Just Energy submits that the RRO procurement design should be market reflective, offer consistency and maintain a leveled playing field for industry participants. A true market reflective procurement design enables energy management and technology innovation from which consumers benefit.

Thank you for your consideration of this submission. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Frances Murray
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Options for Enhancing the Design of the Regulated Rate Option (RRO)

Stakeholder Comments on MSA DRAFT

July 19, 2017

Response submitted jointly by the REA Working Group:
Battle River Power Coop
EQUS REA
Lakeland REA
North Parkland Power REA
Rocky REA

With assistance from:
URICA Energy Management Corporation
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In response to the request by the MSA for comment on and response to the draft of the report to the Minister of Energy concerning the review of Options for Enhancing the Design of the Regulated Rate Option (RRO), the Rural Electrification Association (REA) Working Group is appreciative of the opportunity to respond. The Operating REA Working Group is comprised of:

- Battle River Power Coop
- EQUS REA
- Lakeland REA
- North Parkland Power REA
- Rocky REA

The provision of RRO service is an important part of the REA WG's service offering to their respective members. Given the significant portion of retail services devoted to the provision of RRO services, the REA WG acknowledges the importance of this feedback process. Should any response lack clarity or require further elaboration, the REA WG would be happy to provide any information requested. The response document is aligned to provide comments related to sections in the draft report of the MSA in the order in which they appear in the report.

The following response document represents the views, perspectives, and comments of the REA WG. It is important to note that all comments and input are done so in a respectful manner and are intended to provide constructive feedback.

List of Figures and Tables

Without attempting to do so it appears that the MSA is selecting dates and time periods to make different points in different sections of the report. For instance in Figure 15: Comparison of Equalized Bills in the ATCO Zone, the MSA uses 2014 data for the comparison which may not reflect the current situation. The REA WG requests that a consistent time frame is used (that is, the 2012 to Year to Date 2017 data) and that the most up to date information available is provided.

1 Executive Summary

The Minister's objective of providing stable and affordable energy rates is not a mutually exclusive proposition. Given that, as per the MSA's report, the energy rate is a significantly minor aspect of a the consumer's overall invoice amount and factors such as seasonal consumption have much larger effects on month to month bills, clarification should be provided by the Minister or the MSA on the reasoning for the impetus to create a **stable** energy rate.

Similarly, clarity to the process could be enhanced with a more detailed definition of what is meant by "affordable" by either the Minister or the MSA. This target term is ambiguous as cost comparison. It is a relative term and what seems "affordable" could still be a high rate. It should be noted that electricity "rates" and the total delivered electricity "expense" are two distinctly different concepts.

Energy Sourcing Options

Longer term contracts present significantly larger volume risk (not necessarily price risk) as the volumetric component of load is the largest influencing factor over a long period of time. In short, without volume risk, there is no price risk. That is, if hedge volume matches load volume, then there is no price risk to the position.

Further, the predictability of long term hedges was historically viewed as attractive as was the case in previous RRO structures, but then it moved away from this over time to a brief period of full index pricing and then to 45 days and now 120 days, and now the Government considering going back to “long term” hedges. This circular process does not make sense. It appears that the GoA wants to reconsider the hedging mechanism right now because they think prices are “low”, and this will support “affordable” rates, but the Government should not be taking a position on what the prices should relatively be. Due to the fact that prices have been artificially suppressed via the Balancing Pools offer strategy, this has resulted in what can be considered historically low forwards for the next 4 to 6 months, however this could change in a flash when the GoA announces longer term hedging. With RRO providing entities forced to execute long term hedges the demand in longer dated years will cause the prices to move higher. In short, as the demand for longer term forward transacting increases, prices will also move higher resulting in the elimination of what is currently seen as “low” forward prices.

The MSA’s comment regarding retailer’s motivations and the effect of long term hedging on the RRO is misguided. Retailers have an impetus to sell products that make the most money with the least amount of risk, their primary business is acquiring customers to achieve this. For the most part, retailers in Alberta allow customers to switch from floating to fixed products so they are ambivalent to the product selection. Furthermore, many smaller retailers only offer flow through products as a way of managing their risk, which the MSA completely ignores.

Billing Options

Multiple retail entities in Alberta have switched billing providers with minimal disruption or issue. Because RRO customers are billed via Tariff Bill Files, there is no settlement adjustments (interim, final) that need to be accounted for, and the code for billing services has proliferated to various service providers. There are many billing providers that would agree to service the RRO customer base on a fixed fee per site basis.

The MSA report has failed to acknowledge that many RRO providers currently already provide an equalized billing option. In some cases with large retailers, as in the case with ENAMX, they generally provide this over their full suite of commodities to achieve balanced billing for your water, natural gas and electricity. Creating an equalized billing platform for the RRO is not only duplicative, but it will likely cause issues as this will force the decoupling of the RRO from the existing balanced billing methodology.

3.1 AUC Process

Greater scrutiny of shorter term EPSPs by the AUC is not a certainty, and shorter term EPSPs will definitely drive up consumer costs to pay for the regulatory burden associated with this process. However, the tradeoff has been that the longer plans were implemented with very favorable terms for the RRO providers. Had the longer terms incorporated the newest Commodity Risk Compensation and reasonable Rates of Return then consumers would not bear the cost of increased regulatory assessment nor the previous over collection of risk margin.

3.3 RRO Volatility

RRO Customers sites are metered by Daily Cumulative Meters (DCM) and as such the consumption profiles associated with RRO consumer sites are "deemed", and do not reflect actual hourly consumption patterns of a specific site. The hourly consumption is not based on what they actually consume, but what they are allocated based on load on the system (for Net System Load Shape) or their consumption load profile. This is important because there is no direct correlation between actual hourly consumption and hourly prices. If the rate moves towards a pool price flow through format the customer will not be able to make any direct connection between their actual consumption profile (not SPI – Settlement Profile Information) and price. An RRO Consumer would need to be extremely sophisticated to validate the bill at the end of the month (SPI, x monthly volume to get hourly volume to then apply to hourly price). Beyond this the customer would need to know what their profile class was, and most customers don't have any idea how to determine or find this information and it likely is not included on their bill or readily accessible to unsophisticated consumers.

We wonder why the MSA would openly state that current pool prices are likely insufficient to support fixed cost recovery for many generators, and are therefore unlikely to support new investment in light of the energy offer pricing practices currently being undertaken by the Balancing Pool. Given that the Balancing Pool itself has suggested that pool prices would be notably higher should coal fired assets be returned to the original asset owners[1] this statement by the MSA may be highlighting a larger issue of intervention in the market causing it to be non-sustainable.

<u>3.5 RRO Rates Vary by Rate Class</u>

All stakeholders would consider this cross subsidization.

<u>3.6 RRO Rates Vary by Location</u>

Figure 10

This figure grossly misrepresents the REAs RRO rates over time. The REA WG submits that it is misleading to randomly select two years where the REAs were above the RRO average for the large RRO Providers. The REA WG requests that this graph be recreated with a more holistic time frame, a complete data

[1] Balancing Pool Board Information Item Termination Financial Analysis, FOIP Document Number 2017-G-0004 Recrods – Applicant Copy, PDF page 10 of 11.

source, and proper labelling. Respectfully, the REA WG respectfully requests further input into its recreation.

3.7 Natural Gas Default Tariff

This section is loaded with assumptions in its attempts to determine this methodology's applicability to the RRO market. Volatility exists in the Natural Gas market, and the lack of liquidity in the electricity market may be overstated. The REA WG has no doubt that the RRO providers could easily procure for full RRO load volumes in a short time frame if they were using a deferral account mechanism, had no accountability for performance, and were just flowing through a settled price as is the case with the natural gas default tariff.

4 The Competitive Retail Market Today

The MSA is underestimating the capabilities of the large retail providers. Given the demand for a product, retailers can quite quickly change product structures to meet customers' needs. These same retailers share billing platforms with the various RRO providers; therefore if the RRO can develop the product, the retailer will definitely be able to mimic this with minimal effort. It is impossible to prove that software code is communal across code of conduct lines.

5.1 Single Buyer

Disadvantages

- To say credit costs borne by the customers would not increase this is incorrect. Consumers currently pay for the cost of credit of each RRO Provider as if it they were each standalone entities.

- The buyer has to be independent, the general flow of information within the current RRO providers is already a constant issue before the regulator, not sure how improving a process turns into a disadvantage
- If a generator is allowed to bid on the service then they cannot self-supply as it is a conflict of interest; this is not a disadvantage
- The statement that RRO procures use the market and their EPSPs as the benchmark is not impartial. The large RRO Providers cannot even agree to standardized procurement methodology because they are all claim unique characteristics. Rationally there would be auditable competition for each transaction (extremely easy). There would not be a benchmark against which performance could or would be measured.

How could a single buyer be selected?

We question if the MSA is making an implicit reference to the Balancing Pool potentially assuming these duties. For the Balancing Pool to even qualify for this service, they cannot hold generation as it creates a conflict of interest.

<u>5.2 Energy Sourcing Options</u>

5.2.1 Status Quo

Advantages

- Equalized billing already exists for those customers that ask for the service, the MSA needs to acknowledge this exist as an option for RRO consumers.

Disadvantages

- Forward contracts selling at premium to spot will not change with a longer term product so how is this a disadvantage. The real issue here is the excess commodity risk premiums that the RRO providers negotiated historically which is potentially greater than the Forward to Spot premium.
- Risk compensation does not go away with a longer term product, the only way to eliminate a commodity risk compensation mechanism is to move to a flow through product.

5.2.2 Long Term Forward Market Purchases

It is not generally accepted in the market that three months or one year is considered a long term product. It is difficult to forecast how the long term price RRO price would compare to today's product because the forward market price will change as hedge transactions for the future years are executed. Historical analysis that does not consider the impact of moving demand from one product to another is flawed. Prices of products will change if there procurement volumes increase dramatically.

Advantages

- The REAs have this structure currently, if this compatible with the EUA and current market design then compensation for existing hedges transacted under the identical premise should be provided.

5.2.3 Pool Price Flow-Through

Disadvantages

- RRO providers would not need to modify their billing systems. The systems that are already in place manage these type of rates currently, both in the form of Competitive rates that are offered and Default supply rates for Regulated customers >250 MWh. There are very limited added costs.

- All RRO products ever offered have been provided by most competitive retailers. Enmax actually referred to the rate as the “matched price” product, as in it matched the RRO price. Assuming that the presence of preexisting product in the retail means it is not required as a regulated product will always be circular, since retailers eventually just match whatever the RRO structure is.

5.3.1 RRO Billing by Retail Providers

Advantages

- As Enmax provides the RRO, and Enmax provides Retail services as both are billed through Encompass/SAP the REA WG wonders how this is different from the MSAs suggestion. This structure already exists at EEA, EEC, DERS, and the REAs. Obviously, this structure was preferred by Retail entities as a way of coercing customer switching. Call centers can quite easily direct consumer to their available Retail options and away from the RRO.

Disadvantages

- The Retail company would not be providing an RRO service, they would be invoicing an RRO product. If they owned the RRO book then they would obviously want to hedge around this position and this would not work in light of a central procurement philosophy. If the Retail company doesn’t own the book then this process is no different from what is currently being done at every company that provides both RRO and Retail.
- This essentially is RRO with a choice of billing provider. This is not a realistic option as the management of pricing for the multiple distribution areas, profile classes, and forecasting with even an acceptable amount of accuracy become virtually unattainable. The risk premiums would have to be astronomical, and the entity responsible for pricing would be another issue altogether. Would there be a centralized pricing agency or is this something that could only work in the

scenario of one rate across the province. There appears to be a number of unanswered questions plaging this scenario.

5.3.3 Centralized Billing and Customer Service

Disadvantages

- Any move to single billing provider would obviously have to go to RFP, so if a provider was unable to provide the service or didn’t have experience in the area then they would not be selected. This isn’t exactly a disadvantage but rather poor execution if the bid is awarded to someone incapable of performing the service.
- The transition of customers would likely not occur on the same day or even in the same month, moving this many customers at one time is likely not feasible so the move would need to be staged to some degree. That said, TBF/meter cycle billing is the optimal system to allow for the mass transition of customers from billing system to billing system.

5.3.4 Equalized Billing

Equalized or balanced billing exists in the current RRO environment. This is a standard service provided by the REA WG. Most, if not all, RRO providers provide on a regular basis, however, the uptake of this product is relatively low due to the potential for deferred costs that are trued up annually and not palatable for the rate base. The MSA has proposed a bill smoothing methodology, which is essentially balanced billing with a monthly versus an annual true up. It is difficult to see what the benefit of this would be to the consumer – this is similar to the natural gas default rate that can swing wildly in volatile periods and it does not provide customer satisfaction in those cases.

5.4.1 One RRO Rate for all Albertans

This scenario should not warrant further consideration. The MSA has already addressed the issue of cross subsidization, and this is the most blatant example of that in action. While this type of rate would decrease customer education and confusion – it would be near impossible to allocate and would create large pockets of cross subsidization across the province. Furthermore, it would require the removal of many deemed profiles and street lighting load from the RRO rate, which would then need to be reestablished on a different form or regulated rate.

5.4.2 Eligibility

Volumetric restrictions to the existing rate class are not at all aligned with the rate stability or affordability so the REA working group is extremely confused at how this option is even appearing in the MSA's report. Beyond this, the idea to use tariff rate classes to determine RRO eligibility creates notable issues. Wire Service Providers make these determinations, and in many cases based on information provided by customers. While the REAs are very opposed to this type of change, at the least volume should be the determining factor and not Tariff Rate Class which feels like an arbitrary designation without any rationale behind the decision.

The RRO does not currently price an aggregated load shape for all customers, procurement is based on the aggregate volumes and customer classes pay differing rates based on their assigned profiles. Removing "larger" RRO customers via a rate class exception has nothing to do with creating stable or affordable rates, and will likely increase administrative costs reassign these customers which is against the proposed mandate.

5.4.3 Entry or Exit Fees

There are two schools of thought on this:

> The RRO is supposed to be a default consumer option, not a trap – the inclusion of exit fees without a contract is completely against even retail regulations. Not only is this not legal under the current regulations, this type of exit risk is managed through the use of deposits in both the RRO and Competitive contracts. You cannot charge exit fees to a customer that hasn't signed a contract, and if you are signing a contract for default supply that is completely contrary to the supplier of last resort concept that is ingrained in the philosophy of the RRO. This suggestion seems completely at odds with the RROs base concept, the GoA should not be trying to disincentivise customer and to leave the RRO that is most certainly not the mandate they are attempting to achieve. The whole concept of exit fees is not a fit with default provision.
>
> However, that being said, if an RRO provider is making commitments of hedging that are longer in duration than the commitment of the customer, should the customer decide to leave the mark to market cost or gain on the hedge should be applied back to the customer. If you aren't going to do this, then other RRO members could be paying for the loss of a customer that has left the RRO – which is cross subsidization. The longer the hedging that is done for the RRO the greater the position risk as long as RRO consumers can leave at any time and do not have exit mark to market adjustments.

5.4.5 Greening the RRO

Every consumer in the province could "green" their own electricity consumption on their own. They simply would need to buy RECs and there are many entities trying to sell them as part of their retail offerings. However, when given the choice Consumers don't take the greening option because it costs them money and they do NOT see a financial benefit. One such program launched in 2007 for consumers started out at about 10% update and now is less than 1%.

The RRO is not a tool for the GoA to use as a way to further their renewable policy. The customer should not be forced to bear these costs and in general this was never the intended purpose of the RRO. This type of pandering to the GoA's renewable plan should not be a part of this report.

5.4.7 RRO Integration with Time-of-Use Metering

Time of Use metering should be a completely separate issue and discussion. The average consumer knows nothing about how their consumption translates into expense, and when you consider the effects of distribution and transmission on that expense, electricity commodity consumption is minimal.

As TOU meters only register usage in buckets of On/Off Peak they are not the best way to force consumers to move their consumption. Also, as the RRO is currently using a 7x16 peak block this scenario is actually expecting customers to move consumption from the rush hour peak until 11:01 pm, which is not realistic. The correlation between the TOU buckets and actual system peaks is not at all a good measure of how a customer's usage effects the system.

6 Transition

The amount of time needed to make any type of transition from the existing RRO should not be underestimated. The large RRO providers will not make any change in an expedient manner unless there is a financial benefit to them. Nothing will be implemented quickly as the current EPSP hedging activities will need to expire before any new plans can take place. However, if the Government is willing to allow the large RRO Providers EPSP hedges to expire before they implement any RRO enhancements, why are the REA's not afforded the same treatment? The limiting factor is not the procurement of new/different hedge products, but the expiration of existing hedges. The REAs only ask that they are treated fairly in this respect and in the same manner as ENMAX, EPCOR, and Direct Energy.

7 Impact of RRO Options on Municipal Providers and Rural Electrification Associations

Changes to the RRO will obviously have a direct impact on the REAs. While REAs do not benefit from the administrative economies of scale of many larger providers; many are still competitive due to their lower cost of billing and settlement than the larger providers. The MSA is erroneously assuming that the REAs require greater administrative effort to procure and manage the RRO, this is untrue for the most par as REAs are not for profit organizations that are accountable to their membership in these areas.

Why couldn't a scenario like Medicine Hat be used as the base the case for REAs. The mismanagement and misapplication of fees could result in different REAs and municipalities in Alberta following the lead of Community Choice Aggregation in California.

7.3 Rural Electrification Associations

The lack of buying power for REAs does not always result in higher procurement costs, in many situations their ability to be nimble and make quick hedging decisions allows for more strategic procurement.

The MSA has incorrectly paraphrased the REAs concern regarding the resolution of their outstanding hedges. While some REAs are not in a positive position with respect to the mark to market on existing RRO hedges, many others are in good standing on their hedged volumes and others are using previous gains from historically positive RRO hedging periods to offset existing hedge prices and stay at competitive levels. The position of the REAs is definitely not a one size fits all situation.

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July 17, 2017

Market Surveillance Administrator
Attn: Mark Nesbitt, Manager, Retail and Investigations
VIA EMAIL: stakeholdersconsultation@albertamsa.ca

RE: Options for Enhancing the Design of the Regulated Rate Option (RRO)-Draft for Consultation (June 1, 2017)

Dear Mr. Nesbitt:

In its May 19, 2017 letter to the MSA, TransAlta proposed to increase the hedging window for all RRO providers from 120 days in advance to up to one year. TransAlta also suggested maintaining the procurements at the same frequency as done currently, but with all RRO providers adhering to an auction process similar to that of EPCOR.

TransAlta maintains that this change could be implemented quickly, and will help achieve the government's stated goals of: affordability of electricity; predictable and stable rates; and minimized regulatory and administrative costs.

TransAlta has no further comments beyond its May 19 letter.

Should you have any questions or comments, please do not hesitate to contact the undersigned.

Glen MacIntyre

Yours truly,

TRANSALTA CORPORATION

GLENN MACINTYRE
Senior Regulatory Advisor, North American Gas and NE Power

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July 18, 2017

Via Email

Market Surveillance Administrator
#500, 400 – 5th Avenue SW
Calgary, Alberta
T2P 0L6

Attention: Dr. Mark Nesbitt
Manager, Retail and Investigations
Market Surveillance Administrator

Dear Mark,

Re: Market Surveillance Administrator ("MSA") Notice to Participants and Stakeholders
Options for Enhancing the Design of the Regulated Rate Option ("RRO")
Request for Comments on Draft Report
TransCanada Energy ("TCE") Comments

In the MSA's Notice to Participants and Stakeholders dated April 21, 2017, the MSA indicated that the Minister of Energy requested that the MSA conduct an analysis and provide a report with options for enhancing the design of the RRO. On June 20, 2017, the MSA posted a Draft Report (the Report), and requested suggestions and comments from stakeholders for improving the report in the context of the Minister's request.

The Report identifies three Energy Sourcing Options: Status Quo; Long-term Forward Market Purchases; and Pool Price Flow-through. The Report discusses the impact of moving from the Status Quo to either Long-term Forward Market Purchase or Pool Price Flow-through on the competitive retail market, forward market liquidity, the interaction of the various options with the forthcoming capacity market as well as the need for bill-deferral mechanisms. TCE offers the following comments on each of these issues:

Impact on Competitive Retail Market
TCE agrees with the MSA that the procurement of longer term products for the RRO would compete more directly with products offered in the competitive retail market. However, TCE understands that competitive retailers also offer pool price flow-through products and therefore a shift in the RRO model to Pool Price flow-through would likewise negatively impact the competitive retail market.

Impact on Forward Market Liquidity
The Report concludes that if the RRO were to move to long term hedging, it is likely that trading in long term contracts would increase. Although TCE does not disagree with this conclusion, it does not address TCE's concern that a shift to long-term forward market purchases would result in a decrease in short-term

liquidity in the same way a shift to pool price flow-through would. As identified in the Report, a decrease in liquidity may create issues for generators or loads trying to hedge. TCE is concerned that a one-third reduction in the prompt month trading volume would have a significant impact on the market, and this inability to hedge would make it more difficult for both generators and large consumers to manage operational risks at competitive prices. This increase in risk will be reflected in both the energy and forward markets.

Capacity Market
In the Report, the MSA suggests that a downward spiral in the forward market liquidity would not be an issue for new generators looking to enter the market, as the impact would be mitigated by capacity payments. The Report also states that during the transition to a capacity market, "actions" that would mitigate economic withholding will limit volatility and, further, that once the capacity market is in place, the energy market may become less volatile.

TCE understands that one objective of the MSA's Report is to evaluate ways to reduce RRO volatility. In concluding that pool price flow-through will not negatively impact volatility, the MSA presumes much about the design of the capacity market and the resultant impact on energy prices when assessing the advantages and/or disadvantages of the pool price flow through option.

At this stage it has not yet been determined how much of a generator's revenue stream will come from the capacity market and if the capacity market provides a relatively small portion of the total revenues, energy prices will need to increase. In this scenario it is not obvious that the level of mitigation required to effectively eliminate energy price volatility will be mandated.

Additional Comments Regarding Deferral Mechanisms
In addition, the Report identifies the need for bill-deferral mechanisms in order to reduce volatility and provide stability if price flow-through is implemented. However, such true-up can mechanisms obscure the true price of electricity from consumers. For this reason, TCE is of the view that deferral accounts create an additional layer of complexity that could increase costs for consumers as well as the regulatory burden for RRO providers. Further, as mentioned in TCE's previous submission, deferral accounts can result in greater differences between the RRO rate that was set in advance and the actual cost of electricity for that delivery period. This in turn reduces the visibility of the price signal and may reduce incentives for RRO consumers to switch from the RRO to competitive contracts, thus negatively impacting the competitive retail market.

Summary
It is not clear to TCE that either option is superior with respect to the impact on the competitive retail market or short-term forward market liquidity. The Report also discusses the need to consider any changes to the RRO in conjunction with the impact of the capacity market on consumers. TCE agrees and therefore suggests that any changes to the RRO Regulation or the RRO Rate should wait until the capacity market design as well as any corresponding changes to the energy market have been determined. This ensures that impacts of any change to the RRO on competitive retailers, the forward market and consumers are considered holistically and in the context of the new market design.

TCE appreciates the opportunity to provide feedback on this matter. If you would like to discuss this further, please feel free to contact me by phone at 403-920-7682 or by email at Janene_Taylor@transcanada.com.

Sincerely,

Original Signed By

Janene Taylor
Manager, Market Services & Regulatory
Western Power

utilitiesconsumer
advocate

July 20, 2017

Mark Nesbitt (delivered by e-mail)
Manager, Retail and Investigations
Market Surveillance Administrator (MSA)
Suite 500, 400 - 5th Avenue SW
Calgary, AB T2P 0L6

Dear Mr. Nesbitt,

RE: Comments on MSA's draft report Options for Enhancing the Design of the Regulated Rate Option

I am writing on behalf of the Utilities Consumer Advocate (UCA) to provide our input on the draft report to the Ministry of Energy prepared by the MSA regarding the Regulated Rate Option in Alberta. The UCA appreciates your consideration and continued efforts on this matter.

Background

On April 21, 2017 the MSA sent a notice to participants and stakeholders to assist the MSA in assessing options for enhancing the design of the regulated rate option to provide long-term, predictable, stable and affordable electricity rates, with minimized regulatory and administrative costs. The MSA specifically asked stakeholders to consider:

(i) Whether there should be one RRO rate for all eligible consumers (or consumer category) in Alberta;
(ii) Changes to procurement, including advanced procurement of longer term products, centralized procurement, or options that do not require advanced procurement;
(iii) Introduction of deferral accounts or changes to bill smoothing; and
(iv) When and how a change to the RRO should occur.

Following stakeholders' submissions, a draft report was prepared by the MSA which concluded that there are a number of options that appear to meet the requirement for more stable and predictable electricity rates with minimized regulatory and administrative costs. Based on a set of categories (energy procurement, energy supplier, billing agent, etc.), the report analyzes different options including the status quo (monthly forward contracts), long-term forward contracts, pool price flow-through, single RRO buyer, together with options such as reducing the eligibility criteria, greening the RRO and using a single billing agent. In response to the MSA's Notice to Participants and Stakeholders on June 20, 2017, the UCA would like to provide the following specific comments and suggestions for MSA's consideration.

Proposed considerations

In the UCA's view, the draft report provides a reasonably balanced view of each option with fairly comprehensive analysis of the advantages and disadvantages associated with each option. As stated in the UCA's original submission, our main concerns have to do with consumer protection (price and volatility), the effects on the competitive retail market and the wholesale market (liquidity and competition), and administrative or regulatory burden. Accordingly, the UCA has recommended the introduction of a centrally administered procurement process with long-term contracts as an alternative to the current RRO. While the draft report refers to some advantages of central procurement, the UCA submits that the MSA report should recognize and contemplate some additional disadvantages of pool price flow through system & equalized billing and specific advantages of single RRO buyer & long-term hedging (described below). In addition, the UCA submits that some of the assumptions contained in the draft report require clarification (described below).

Pool price flow through (PPFT)

- Section 5.2.3 of the MSA RRO draft states "(PPFT) Would likely result in lower overall electricity prices for consumers since flow through rates would not have a forward market risk premium (Figure 1) and regulatory costs would likely be reduced".
  The UCA concurs with this statement and submits that, this statement could include additional information stating that even under PPFT system consumers will need to pay for administrative costs, non-commodity risk margin (i.e., risks not related to forward market procurement) and a reasonable return margin. Another fact is, PPFT should not be directly compared with the total RRO price; rather pool price of PPFT system should be compared with the base energy charge (BEC) of the current RRO system and in some cases pool price may be higher than the base energy charge.
- Section 5.2.3 of the MSA RRO draft states "Actions that mitigate wholesale prices or economic withholding during the transition to a capacity market will make large price spikes less likely, resulting in a less volatile pool price flow-through rate." And "Forward market volume in the prompt months may be reduced by about a third if RRO energy is no longer purchased forward (see Figure 14). This may lead to a downward spiral in forward market liquidity. A less liquid forward market may create issues for generators or loads trying to hedge and may make it more difficult for new generators to enter. This effect would be mitigated by the introduction of capacity payments."
  The UCA submits that, while capacity market intends to encourage the entrance of new generators, there is a chance of increase in pool price due to market power exercise in the absence of a forward market. Moreover, reduction in volatility resulting from the implementation of capacity market depends largely on the design of the capacity market. Hence, in the UCA's view, it should be contemplated in the report that there is a risk that capacity market may not be able to reduce the volatility to the same extent as the presence of a forward market.
- Section 5.2.3 of the MSA draft report states "RRO Providers would need to modify their billing system, which may result in added costs".
  The UCA concurs with this statement and suggests that to add the fact that current metering infrastructure in Alberta does not capture hourly consumption and smart meters would need to be installed for billing consumers based on hourly pool prices and hourly consumption. If the

MSA is suggesting billing consumers based on monthly average of hourly pool prices, it should be stated clearly in the report.

- Section 5.2.3 of the MSA draft report states "Pool price flow-through products are provided by most competitive retailers and have proved popular with some customers so it is unclear whether the regulated provision of such a product is necessary".
  The UCA concurs with this statement when pool prices are low and suggests adding that hedging provides greater headroom for pricing competitive products which would be absent in a PPFT system.

Equalized Billing

- Section 5.3.4 of the MSA RRO draft states "While the consumer would be exposed to pool price in all months, they would not see the result their previous month's consumption has on their bill immediately, such that a change in consumption behaviour could be made. The bill payment becomes slightly detached from the energy cost and consumption."
  The UCA concurs with this statement. However, the UCA suggests adding that equalized billing is not consistent with the concept of efficient pricing signals and may limit energy efficiency behaviours. Efficient pricing signals are essential to reflect costs and benefits and to carry competitive market rates to encourage these behaviours.

Single RRO buyer

- Section 5.1 of the MSA RRO draft states that "If the RRO Regulation was made prescriptive enough the EPSP process could be eliminated entirely. This would decrease flexibility with respect to implementation and modification of the RRO since all changes would have to be made through regulation and would only result in average savings of 0.01 ¢/kWh across all rate classes and service areas, as detailed in Section 3.2."
  The UCA submits that this statement may be misleading as the amount of 0.01 ¢/kWh does not include costs of the government agencies such as the UCA and AUC. The UCA submits that the report should state cost savings that reflect the costs of the government agencies such as the UCA and AUC or it should note that these cost savings would be more than 0.01 ¢/kWh by the implementation of a single RRO buyer. Moreover, the UCA also suggests recognizing the reduction of regulatory burden as an advantage of single RRO buyer in the MSA RRO report.

Centralized billing and customer service

- In section 5.3.3, the MSA considered which entities should provide billing and customer service to RRO consumers, and suggested that moving away from the current model could be costly in terms of development of new billing infrastructure, transition of customer information between providers, and could affect billing continuity and customer service. The MSA stressed that some of the options may be costly for RRO consumers while achieving few benefits according to the

Minister's Criteria. The MSA also refers to "significant transition issues" and increased level of complaints.

The UCA submits that RRO providers currently include costs in their rate applications associated with their billing systems and customer service and that these costs are continuing to increase. Therefore, the calculation of cost impacts should be carefully assessed when deciding which option to implement. There could be mechanisms in place such as changes to Rule 003 and enhancing compliance and enforcement.

For further information or if you have questions, please contact me at (403) 476-4998 or megan.gill@gov.ab.ca.

Sincerely,

Megan Gill
Manager, Market Policy and Analysis
The Office of the Utilities Consumer Advocate