DRAFT Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation

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1 INTRODUCTION AND OVERVIEW

In assessing owners' financial performance pursuant to subsection 11.2 of the *Rate of Last Resort Regulation* AR 262/2005 (RoLR Regulation) the MSA will consider two parameters: Return on RoLR Cost (ROC) and Relative Risk Exposure (RRE).

ROC is the return provided to owners on costs, with adjustments to reflect the energy price setting plans (EPSPs) and regulated rate tariffs (RoLR tariffs) approved by each owner's Regulatory Authority. The MSA will compare each owner's ROC to the margin on prevailing costs approved by the owner's Regulatory Authority (Approved Return on Prevailing Costs, or ARPC). An ROC more than the ARPC + 10% or less than ARPC - 10%, may result in a finding the owner's financial performance is unacceptable.

The RRE examines whether the owner faces risks that are uncompensated by its EPSP (uncompensated risks) and are outside the control of management. In their submissions to the MSA, owners must identify any uncompensated risks that will significantly impact the owner's financial performance under the RoLR to the end of the RoLR rate term. The MSA may also identify uncompensated risks based on the ROC calculation. The MSA will examine any risks identified and the approved EPSP risk margin and may find the owner's financial performance is unacceptable if an identified risk is uncompensated by the risk margin and significantly impacts its financial performance.

The MSA will evaluate owners' financial performance at the owner level. Where an owner offers multiple RoLR energy charges, the MSA will assess the financial performance of the RoLR offered at each energy charge.

2 RETURN ON ROLR COSTS

The MSA will calculate each owner's ROC using the following formula:

$$\text{ROC} = \frac{(\text{Adjusted RoLR Energy Revenue} - \text{Energy Price-Recovered Costs})}{\text{Energy Price-Recovered Costs}}$$

Adjusted RoLR Energy Revenue (ARER) is the revenue that owners receive in a prevailing RoLR rate term from the energy charge, less any revenue received through the energy charge that recovers costs which do not apply to the prevailing RoLR rate term.

Energy Price-Recovered Costs (EPRC) are owners' costs to serve RoLR customers in the prevailing RoLR rate term that are recovered using the energy charge. EPRC does not include costs associated with financial hedges that are not used to calculate RoLR energy charges, and only includes non-energy costs if those costs are expressly approved by the Regulatory Authority for recovery using RoLR energy charges.

The MSA will forecast monthly values for ARER and EPRC to the end of the two-year RoLR rate term. ROC will be calculated using sums of actuals and forecast ARER and EPRC over all months of the two-year RoLR term. The MSA will use all actual monthly values submitted by the owner to-date and forecast monthly values to the end of the RoLR rate term to calculate ROC. For example, the reports prepared for July 1, 2025 may be calculated using 4 months of actuals and 20 months of forecast ARER and EPRC.

2.1 Adjusted RoLR Energy Revenue (ARER)

Owners will calculate their Adjusted RoLR Energy Revenue for each month using the following formula:

$$\textbf{Adjusted RoLR Energy Revenue} = (\text{Energy charge} - \text{Non-prevailing term energy charge components}) \times \text{Total consumption billed to customers}$$

Owners that offer more than one energy charge must calculate the ARER for each energy charge.

2.1.1 Energy charge

Owners will be required to submit the energy charge in $/MWh approved by their Regulatory Authority.

2.1.2 Non-prevailing term energy charge components

Non-prevailing term energy charge components are those components of the energy charge that recover costs an owner incurs in a term other than the prevailing term. This includes components that recover costs resulting from risks arising from the 10% limit on changes to energy charges between RoLR rate terms, and other similar risks.

Owners must calculate and submit to the MSA the total of all non-prevailing term RoLR energy charge components and subtract them from the energy charge, as indicated in the ARER formula. Where an owner submits non-prevailing term energy charge components, they must provide the MSA with records supporting the submitted values.

2.1.3 Total consumption billed to customers

Owners must submit the total MWh billed to customers.

Owners must also indicate whether consumption billed to customers includes losses or unaccounted-for-energy when submitting the ARER calculation to the MSA.

2.1.4 ARER Data Submission

Owners must submit the data and calculations set out in Appendix A.4, and any supporting records by June 1 and December 1 of each year.

2.2 Energy Price-Recovered Costs (EPRC)

Energy Price-Recovered Costs (EPRC) are owners' costs recovered through energy charges in the prevailing RoLR rate term. Owners will calculate EPRC as the sum of the costs set out below. If any cost is recovered partially through the energy charge and partially through other means, only the portion of the cost expected to be recovered through the energy charge when the owner's EPSP was approved should be included in the EPRC calculation.

The calculation of EPRC will be as follows:

	AESO charges [see 2.2.1 below]
+	Financial hedge charges, if applicable [see 2.2.2 below]
+	Bad debt expense, if applicable [see 2.2.3 below]
+	Income tax / Payment in lieu of tax
+	Consumer Awareness Surcharge remittance
+	Approved non-energy costs, if applicable [see 2.2.4 below]
Total:	**Energy Price-Recovered Costs (EPRC)**

2.2.1 AESO charges

Owners must submit AESO charges for energy, retail adjustment to market (RAM), trading, uplift, and other charges, as set out in Appendix A.5.

2.2.2 Financial hedge charges

Owners who do not use prices of procured financial hedges to set energy charges must not include financial hedge charges in their EPRC calculation.

Where an owner's Regulatory Authority approved an EPSP which uses the price of procured financial hedges to set the energy charge, the costs associated with financial hedges procured by an owner for delivery during a RoLR rate term must be included in the owner's EPRC calculation. Financial hedge charges include costs for: net hedging cost (revenue), ICE NGX trading charges and auction fees, other electricity procurement costs, and credit costs, as set out in Appendix A.5.

Owners will be required to produce the additional information and records described below if financial hedge cost data is included in the EPRC calculation.

Net hedging cost (revenue)

An owner that submits net hedging cost (revenue) must provide records supporting:

i) the total reported value of the net hedging cost (revenue);
ii) the transaction date(s) of all financial hedges used to calculate the net hedging cost (revenue);
iii) the shape, price, and volume of all financial hedges used to calculate the net hedging cost (revenue);
iv) the contract delivery period for each hedge used to calculate the net hedging cost (revenue); and
v) the use of all financial hedges in the EPSP to set the energy charge.

ICE NGX trading charges and auction fees, Other electricity procurement costs, Credit costs

An owner that submits ICE NGX trading charges and auction fees, other electricity procurement costs, or credit costs must provide records supporting:

i) the reported value of the charge, fee, or cost;
ii) the dates when these charges, fees or costs were incurred; and
iii) the transaction date(s) of all financial hedges associated with the charge, fee, or cost.

Costs incurred prior to the beginning of the RoLR rate term must be allocated to the first month of the RoLR rate term.

2.2.3 Bad debt expense

An owner whose Regulatory Authority has not approved recovery of bad debt expenses through the energy charge must not include bad debt expense in their EPRC calculation.

If an owner's Regulatory Authority has approved recovery of the cost of bad debt through the energy charge, bad debt expense must be included in the calculation of the EPRC. Bad debt expense consists of the bad debt expense for all RRT billings and the share of bad debt expense recovered through energy charges, as set out in Appendix A.5.

If only a portion of bad debt expenses are recovered through the energy charge, the bad debt expense included in EPRC must be prorated according to the share approved for recovery through the energy charge.

Owners must provide supporting records demonstrating:

i) the total bad debts expense associated with RoLR tariff billings in the prevailing RoLR rate term; and

ii) the share of bad debts expense in the prevailing RoLR rate term approved by the Regulatory Authority to be recovered using energy charges.

2.2.4 Approved non-energy costs

An owner whose Regulatory Authority has not approved recovery of non-energy costs through the energy charge must not include non-energy costs in their EPRC calculation.

If an owner's Regulatory Authority has approvery the recovery of non-energy costs using energy charges, the owner must calculate its EPRC including the approved non-energy costs. The approved portion of each non-energy cost recovered through the energy charge must be reported separately and tied to the component of the energy charge used to recover that cost. Owners must provide the calculation of each approved non-energy cost recovered through the energy charge and supporting records.

2.2.5 EPRC Data Submission

Owners must submit the data and calculations set out in Appendix A.5, and any supporting records by June 1 and December 1 of each year.

2.3 Forecast ROC Metric

The MSA will calculate a single ROC over the full 24-month RoLR rate term for each owner using all actual monthly values submitted by the owner to-date and forecast monthly values to the end of the RoLR rate term.

The MSA will forecast monthly ARER and EPRC for each owner for months in the RoLR rate term in which realized ARER and EPRC data is not yet available. The MSA will develop models to produce monthly forecasts of ARER and EPRC. The MSA's models may use electricity futures prices, RoLR customer site and load data, and owners' realized ARER and EPRC data to produce the forecast ARER and EPRC metrics. These models may be refined by the MSA over time as new information becomes available. The MSA will provide monthly forecast ARER and EPRC values to owners to allow owners to provide comment on the results prior to their use in the MSA's financial performance reporting.

2.4 Indicative ROC Threshold

The MSA will compare each owner's ROC to the ARPC, the return on costs approved by the owner's Regulatory Authority with necessary adjustments. Owners must provide the ARPC as a single percentage value. If the owner's Regulatory Authority has approved a return margin as a percentage value, this will be the ARPC value provided to the MSA.

If the owner's Regulatory Authority has approved a return margin as anything other than a percentage, the owner must convert its approved return margin into a percentage and provide this ARPC value to the MSA. In addition, the ARPC provided to the MSA must be the return on prevailing term energy charge components. An example of such an ARPC calculation is provided in Appendix B.

Each owner must calculate the ARPC and submit it to the MSA by the first day of each RoLR rate term. For the 2025-2026 RoLR rate term, owners must submit their ARPC and all calculations by May 1, 2025. These submission requirements are detailed in Appendix A.7.

If the owner's ROC is more than ARPC + 10% or less than ARPC - 10%, the MSA may find the owner's financial performance is unacceptable.

3 RELATIVE RISK EXPOSURE

RRE examines whether an owner is exposed to any risks which it is not compensated for in its EPSP and which significantly impact its financial performance.

Owners must submit written comments identifying any uncompensated risks that will significantly impact the owner's financial performance under the RoLR to the end of the RoLR rate term. Owners must characterize uncompensated risks they are exposed to, describe how the risk is not compensated for by the EPSP, and quantify how the realization of that risk impacts the owner's financial performance. Owners must provide all necessary supporting records. These submissions must be made by June 1 and December 1 each year.

The MSA will assess the risks identified against the owner's EPSP and determine if the owner is exposed to uncompensated risk that will significantly impact the owner's financial performance. If uncompensated risks significantly impact the owner's financial performance under the RoLR to the end of the RoLR rate term, the MSA may find the owner's financial performance is unacceptable.

The MSA will require owners submit customer load data, site data, their approved EPSP, all calculations of the energy charge, and any RoLR tariff application materials submitted to their Regulatory Authority. These submission requirements are detailed in Appendices A.6 and A.7.

4 MEASUREMENT AT THE OWNER LEVEL

Owners who provide RoLR service under a single approved energy charge will have their financial performance assessed against a single ROC and RRE. Where an owner provides RoLR service under more than one energy charge, the MSA will assess ROC and RRE for each energy charge provided. An owner that provides more than one energy charge will be required to make separate data submissions pertaining to each energy charge provided.

APPENDIX A: TECHNICAL SUBMISSION REQUIREMENTS AND PROCESS

A.1 Frequency of Reporting

The MSA will provide financial performance reports to each owner and its Regulatory Authority twice per year by January 1 and July 1. If an owner offers more than one energy charge, separate reports will be produced pertaining to each energy charge.

Four financial performance reports will be produced for each RoLR rate term, with the first financial performance report produced by July 1 of the first year the RoLR rate term, and the last financial performance report produced by January 1 of the year following the end of the RoLR rate term.[1]

Following the production of financial performance reports by the reporting completion dates, the MSA may publish these reports on the MSA's website in accordance with section 6(2)(a) of the *Market Surveillance Regulation* (AR 266/2007) (MS Regulation).

A.2 Deadline

Owners are required to submit the records and data listed by the following deadlines:

Energy Revenue Data (Appendix A.4) – June 1 and December 1 each year

Energy Cost Data (Appendix A.5) – June 1 and December 1 each year

Other Data (Appendix A.6) – June 1 and December 1 each year

Start of Term Data (Appendix A.7) – as specified in notices sent to each owner, then the first day of each RoLR rate term thereafter (January 1)

Relative Risk Exposure Written Comments (Section 3) – June 1 and December 1 each year

A.3 Submission of Records

The MSA will establish secure Sharepoint websites for each owner that are only accessible by owners and the MSA. An owner will not have access to secure Sharepoint websites established for other owners. All submissions listed in Appendices A.4 through A.7 and Section 3 must be made to these secure Sharepoint websites.

[1] Financial performance reports for the first RoLR rate term (2025 to 2026) will be produced on July 1, 2025, January 1, 2026, July 1, 2026, and January 1, 2027.

A.4 Energy Revenue Data Submission Requirements

For each energy charge offered by an owner, an owner must submit the following data pertaining to monthly energy revenues received by June 1 and December 1 each year:

1. Energy charge ($/MWh)
2. Non-prevailing term energy charge components ($/MWh)
3. Total consumption billed to customers (MWh)
4. Adjusted RoLR Energy Revenue (ARER) ($)

This data must be submitted using the Appendix C Data Submissions Workbook. Owners must submit revenue data for all months where data is available.

Additional supporting records are required as part of these submissions; see Section 2.1.3.

A.5 Cost Data Submission Requirements

For each energy charge offered by an owner, an owner must submit the following data pertaining to monthly costs associated with the provision of energy at that energy charge by June 1 and December 1 each year:

1. AESO – energy charges ($)
2. AESO – retail adjustment to market (RAM) ($)
3. AESO – trading charges ($)
4. AESO – uplift charges ($)
5. AESO – other ($)
6. Net hedging cost (revenue) ($)
7. ICE NGX – trading charges/auction fees ($)
8. Other electricity procurement costs ($)
9. Credit costs ($)
10. Bad debt expense ($), consisting of:
    a. Bad debt expense – all RRT billings ($)
    b. Share of bad debt expense recovered through energy charges (%)

11. Income tax / Payment in lieu of tax ($)

12. Consumer Awareness Surcharge remittance ($)

13. Approved non-energy costs ($)

14. Energy Price-Recovered Costs (EPRC) ($)

This data must be submitted using the Appendix C Data Submissions Workbook. Owners must submit cost data for all months where data is available.

Additional supporting records may be required as part of these submissions; see Sections 2.2.2, 2.2.3, and 2.2.4.

A.6 Other Data Submission Requirements

In addition to the above, owners will be required to submit the following data applicable to each energy charge by June 1 and December 1 each year:

1. Total RoLR energy consumption, daily, comprised of:
    a. Total RoLR energy usage (MWh)
    b. Total RoLR energy losses (MWh)
    c. Total RoLR unaccounted-for-energy (MWh)
2. Total RoLR sites (#), daily (end of day)
3. Total RoLR energy consumption, hourly (MWh)
4. For each site served by the owner at any point during the prevailing RoLR rate term:[2]
    a. Site ID (13-Digit #)
    b. Energy charge charged to the site ($/MWh)
    c. First day served by the owner (YYYY-MM-DD)
    d. Last day served by the owner, inclusive (YYYY-MM-DD)

This data must be submitted using the Appendix C Data Submissions Workbook. Owners must submit data for all months where data is available.

[2] If a site is a RoLR customer for more than one continuous period during a RoLR rate term, submit multiple entries corresponding to each continuous period that site was served by the owner.

A.7 Start of Term Data Submission Requirements

All owners will be required to provide the following data and records to the MSA by the first day of each RoLR rate term (January 1). For the 2025-2026 RoLR rate term, owners will be required to provide the following data and records by May 1, 2025:

1. Approved Return on Prevailing Costs (ARPC) (%)[3]
2. Records provided to the Regulatory Authority for approval of the regulated rate tariff applicable to the RoLR rate term beginning January 1 in accordance with section 3(2), including:[4]
    a. any written application;
    b. the approved EPSP; and
    c. all calculations of the energy charge in the approved EPSP.

ARPC data must be submitted using the Appendix C Data Submissions Workbook.

[3] Owners will be required to submit all calculations of the Approved Return on Prevailing Costs.

[4] If any records were adjusted during regulatory proceedings, or the Regulatory Authority approved versions of any records different from those originally provided to the Regulatory Authority, those records should be submitted in place of the records submitted to the Regulatory Authority as an application.

APPENDIX B: EXAMPLE OF INDICATIVE ROC THRESHOLD CALCULATION

Owner X has an energy charge that includes an approved return margin calculated on a per-unit ($/MWh) basis. The energy charge is calculated under the approved EPSP as the sum of the following components:

Energy Charge Components	Component Value ($/MWh)
Energy Hedge Price	50
Risk Compensation for Risks Incurred over the Prevailing RoLR Rate Term	40
Risk Compensation for Risks Incurred over Subsequent or Previous RoLR Rate Terms	20
Return Margin	27
Total (Energy Charge)	**137**

The ARPC is the return on prevailing term energy charge components, in percentage terms. In this example, the ARPC is 30%:

ARPC = Return Margin / Sum of Prevailing Term Energy Charge Components

ARPC = 27 / (50 + 40)

ARPC = 27 / 90

ARPC = 30%

Based on this ARPC value, the ROC upper and lower thresholds will be set at 40% (30% + 10%) and 20% (30% - 10%), respectively.

APPENDIX C: DATA SUBMISSIONS WORKBOOK

The Appendix C Data Submissions Workbook (Data Submissions Workbook) can be found here. The Data Submissions Workbook must be used to submit energy revenue data, cost data, other data, and ARPC start of term data.