MARKET SURVEILLANCE ADMINISTRATOR

NOTICE TO MARKET PARTICIPANTS AND STAKEHOLDERS

May 1, 2025

RE: MSA stakeholder consultation on Rate of Last Resort Regulation MSA activities – April 11 stakeholder responses

BACKGROUND

On December 20, 2024, the MSA initiated a stakeholder consultation required by the *Rate of Last Resort Regulation* (AR 262/2005) (RoLR Regulation). The RoLR Regulation requires the following of the MSA:

1. Monitoring and reporting on the financial performance of RoLR providers following the implementation of energy price setting plans (EPSPs).[1]

2. Establishment of parameters for what constitutes acceptable financial performance of a RoLR provider.[2]

3. Notification to relevant Regulatory Authorities if a RoLR provider's financial performance falls outside the parameters set by the MSA.[3]

4. Consultation with interested participants regarding the above-noted parameters.[4]

This stakeholder consultation is being held according to the MSA's Stakeholder Consultation Process. On March 14, 2025, the MSA released its Draft Parameters for Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation (Draft Parameters) and Draft Appendix C Data Submissions Workbook (Draft Data Submissions Workbook) for stakeholder comment.[5] Interested participants were able to submit written comments on the Draft Parameters and Draft Data Submissions Workbook to the MSA by April 11, 2025,[6] following technical sessions held between the MSA and RoLR providers.[7]

[1] RoLR Regulation, s. 11.2(1).

[2] *Ibid*., s. 11.2(3).

[3] *Ibid*., s. 11.2(6).

[4] *Ibid*., s. 11.2(4).

[5] Notice Re: Parameters for Acceptable Financial Performance under the Rate of Last Regulation, March 14, 2025.

[6] Notice Re: RoLR Stakeholder Consultation Timeline Amendments, March 21, 2025.

[7] Notice Re: Summaries of RoLR Stakeholder Consultation Technical Sessions, April 7, 2025.

STAKEHOLDER RESPONSES

The MSA received responses from four Rate of Last Resort (RoLR) providers. These responses are being made public, in accordance with the MSA's Stakeholder Consultation Process,[8] and have been attached to this notice. Responses were received from:

- City of Lethbridge Electric Utility
- Direct Energy Regulated Services
- ENMAX Energy
- EPCOR Energy Alberta GP Inc.

Following stakeholder comments, the MSA established the July 2025 Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation for financial performance reports due July 1, 2025 (July 2025 Reports).

NEXT STEP

Following responses to information requests for data and records required by the MSA to complete the July 2025 Reports, the MSA will resume consultation on the parameters it will use to assess financial performance in future reports on the week of May 19, 2025.

[8] MSA's Stakeholder Consultation Process, Stage 2.5 and s. 3.3.

CITY OF Lethbridge

GATEWAY TO OPPORTUNITY

April 11, 2025

James Conville
Manager, Retail and Rate of Last Resort
Market Surveillance Administrator
440 2 Ave SW
Calgary, AB T2P 5E9

Dear Mr. Conville,

Please accept this letter in response to the Market Surveillance Administrator (MSA) March 14, 2025 release and request of written comment on the Draft Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation (Draft Parameters), as well as draft Appendix C Data Submissions Workbook (Data Submissions Workbook).

Overall, we would have preferred that this consultation process with the MSA involved more discussions, earlier discussions, and less formal discussions so that we could better understand each other's objectives and business practices. We believe this would have produced a superior product. Now that the MSA has produced policy documents, detailed workbooks and requested formal written comments, we are endeavoring to provide frank, detailed and constructive feedback.

In summary, the city's concern is that the proposed analysis is at times unnecessarily detailed and in some other areas, incomplete. In other places, the proposal either does not leverage information and analysis already available (thus leading to a duplication of effort) or relies on information that does not currently exist and would require programming time and cost to produce. While additional cost might not be avoidable in the end, the MSA has not yet

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fully articulated the value of that course of action so that everyone can be assured it remains in the public interest.

We are still not clear about when, what, how, or why the MSA would recommend a rate re-opener, but the analysis indicated so far makes us apprehensive that the product would be at best confusing and at worse, arrive at the wrong conclusion. This will ultimately cause administrative and financial cost for City Council, either by causing additional analysis to determine actual financial performance or by causing delays when action is required. The result including two possible inefficient scenarios:

1. Incorrectly determining that the plan price should be reopened: In this case, Council must disregard the MSA's analysis and instead rely on information from the utility to make an informed decision.
2. Incorrectly determining that the plan price should not be reopened: This outcome would contradict the intent of the Regulation and simultaneously cause a material financial loss for the City.

Part of the challenge, in our view, is the MSA's desire to treat all RoLR providers the same. This would be appropriate if all suppliers relied on the same pricing plan and had similar governance and regulatory structures. However, none of these things are true. To treat different suppliers the same is inefficient and that is what occurs when everyone's performance is assessed using a uniform, standardized format that attempts to encompass every possible contingency and scenario. As a result, many sections of the Draft Parameters and Workbook apply only to specific owners rather than all.

To be more specific, we then offer the following feedback related to the MSA's documents.

Draft Parameters

1. Section 2.2 – Energy Price-Recovered Costs (EPRC):

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a. The EPRC calculation allows for all costs related to procuring hedges (s. 2.2.2) on a financial exchange but does not mention internal administrative costs related to forecasting load and procuring hedges outside a financial exchange.

b. The EPRC does not appear to contemplate top-up hedges purchased after the pricing plan price was set. This will either:
   i. discourage the utility from taking proactive steps to reduce risk and minimize losses, or;
   ii. result in the MSA inaccurately calculating and reporting performance.

There were many discussions around treatment of base and top-up hedges within the April 7, 2025 summary provided by the MSA. The general opinion appeared to be that top-up hedges are a form of risk management that should be captured by a risk margin, not within cost calculations. Within Lethbridge's plan, this is not the case, and in our suggestions toward the end, we will explain further why the performance of our pricing plan is almost entirely based upon managing volume risks.

2. Section 2.3 – Forecast ROC Metric: "The MSA will forecast monthly ARER and EPRC for each owner for months in the RoLR rate term in which realized data is not yet available". Given the utility already forecasts revenues and costs, this seems entirely unnecessary. The MSA does not have the institutional or industry experience forecasting electric load or costs. Nowhere in the workbook does the MSA request any of the conventional exogenous data that are used to forecast electrical load, and the MSA does not provide any information as to how it plans to forecast. Typically, regulatory frameworks recognize the asymmetry of information and that the utility is in the best position to forecast. It is the utility's role is to convince the regulator and interested parties that their forecast is reasonable.

3. Section 3 – Relative Risk Exposure (RRE): This section suggests the utility identifies all risk for which it is not compensated. This is unworkable because it requires a utility to identify what is not presently known. Last fall, we clarified to the MSA that the

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philosophy of our pricing plan considered it neither useful nor productive to name each risk. All that is important is how load might vary from forecast and leave the utility either over-hedged or under-hedged. To the extent that load does vary from forecast, then it must not have been considered when the utility made its forecast. In this sense, *every* variance would seem to qualify by the definition provided here.

The document does not clearly identify what the MSA would do to create a "Relative Risk Exposure" metric. The document directs the utility to name risks and indicates that the MSA will create a quantitative measure that can be assessed or compared. In other words, the document does not explain how a list of words will be converted to a number, what that number would signify, and how it would be used.

The MSA's April 7th document further adds to our uncertainty regarding the intended purpose of relative risk exposure. It appears the MSA is focused on identifying specific risks for which the utility is or is not compensated. We can only speculate that this applies to AUC-regulated utilities, but it is not applicable to our pricing plan. In our case, the approved risk margin encompasses all risks as a single category, with volume being the most significant. Under our pricing plan, the reasons customers join or leave after we make our forecast and set our price are irrelevant; only the resulting change in volume impacts our financial position.

4. Appendix C – Data Submissions Workbook: The City found this document unnecessarily complex and difficult to interpret due to the introduction of new terms, that are not typical within industry or the accounting profession, and level of detail requested. On March 27th, Lethbridge requested the MSA to provide a technical session and to use that time to demonstrate how the workbook would be completed. At the April 1st technical session, the MSA was not prepared to provide such a demonstration and declined to share the workbook on a screen while delivering prepared remarks. It was up to the city to share our screen to follow along.

   Specific feedback about the Workbook includes:

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a. There are several areas in the Workbook that Lethbridge believes are not applicable to our approved plan. This has been inferred after many hours attempting to understand the parameters and workbook, and we ask the MSA to confirm our below list or clarify if we have misinterpreted anything. They are as follows:
    i. **Energy Revenue** Tab:
        1. Row 9 – non-prevailing term energy change components. Not applicable to us currently, however, unsure when or how this might be applicable to us in the future.
        2. Our retail reports do not differentiate between RoLR customers and default supply sites that are not eligible for RoLR. If required, this would necessitate an indeterminate amount of effort to change. There are no current reports provided out of system settlement to separate load in this way.
    ii. **Cost Data** Tab, items:
        1. For rows 1-5, there is no demonstrated need to list all parts of AESO charges individually. This level of precision has no discernable purpose or benefit. A total of AESO charges, if they are at all needed, would be sufficient.
        2. Row 6 – The MSA has not provided information on how this line will be forecast but has requested detailed information of hedging procurement costs. The piece that is missing is an understanding of our hedging process. Given this, we have concerns about forecast accuracy, along with providing a level of detail that is unnecessary (the total quantity by hedge product and blended price are all that is necessary), while also missing relevant information, as noted on page 3.

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3. Row 7 – following clarification from our April 1st meeting, we believe our administrative procurement costs would go here as substitution for purchasing on an exchange platform.
4. Row 8 – uncertain if subsequent hedge costs would be included here, line 6, or elsewhere.
5. Rows 9, 10a&b – not relevant to the Lethbridge pricing plan.
6. Row 11 – Payment in lieu of income tax is not known until around March of the following year (2026), so an estimated accrual, if it is needed, would have to suffice.
7. Row 12 – This requires clarification as to whether this is intended to be the amount billed to customers, collected by the utility, or remitted to the UCA. If this information is needed, then it will be important to acknowledge there is a lag between each of these steps, along with potentially uncollected amounts from customers.
8. Row 13 – not relevant to the Lethbridge pricing plan.

iii. **Approved Non-Energy Costs** Tab. This appears not relevant to the Lethbridge pricing plan.

iv. **Other Data** Tab:

1. Columns D & E – This information is produced in our system settlement reports, but the need is not clear. The city forecasts load with losses and UFE included and makes hedging decisions on this basis.[1] One issue we clarified

[1] Something we have found to be true about forecasting is that adding detail and precision quite often reduces accuracy. Attempting to forecast UFE, losses, and load all individually is a good example. The settlement system calculates both UFE and losses, but it should be noted that losses are an engineering estimate that stays fixed for long periods of time and is occasionally revised. UFE is simply the balancing entry to reconcile the difference between

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with the MSA is that Lethbridge provides all RoLR and default supply under one retailer ID in system settlement. There are approximately one dozen default supply customers co-mingled with RoLR load. This is not insignificant, but also not a large percentage of the total load.

2. Columns F and M through P – in our April 1st meeting, the MSA was unable to articulate a need or purpose for the number of RoLR sites every day. Or for listing every site ID of every customer served by RoLR. It is unclear to us why this information would be required for forecasting or assessing financial performance. Additionally, column O does not specify whether for customers who exist on January 1, 2025, the MSA wants to know the first date of the RoLR term or the date that the site ID first became a RRO customer.

   Overall, this information is not produced by any system settlement reports and would require an unknown amount of programming effort and cost to change. There are also potentially System Settlement Code and Affiliate Code of Conduct implications to requesting such a change with our vendor (e.g. whether the vendor would be required to produce on request similar customized reports to all retailers, and what the cost might be to the entire system).

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what enters the settlement zone and what is attributed to load and losses. However, the settlement provider may, from-time-to-time, revise its estimate of losses. This does not change how much energy settlement attributes to the RoLR retailer in total, but it would create an exogenous step change in what is attributed to losses. The moment this change takes effect, UFE would also change by the same magnitude, but inversed. Forecasting UFE, losses, and load together is more robust because it is not affected by this issue.

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At first glance, we do not believe this information would be available for at least one year. The cost is also not certain, but we fear it could be material.

v. **Start of Term Data** Tab: from the April 1st meeting, Lethbridge understands this value would equate to zero for us, leaving our ROC margin to be a ±10% (as per Appendix B). However, we remain unclear on how this will be applied in practice. It appears the ROC calculation does not include the approved risk compensation. Our pricing plan does not attempt to differentiate between different types of risks and different types of compensation for those risks. Depending upon whether the MSA includes or excludes the city's total compensation, the MSA might flag the plan for re-opening when it does not need to be (which would be frivolous and burdensome) or will not flag a concern when it should. This contradicts the approved plan and would render the MSA's input ineffective.

Recommendations

We acknowledge that the preceding pages identify several criticisms and do not wish to discount or diminish the amount of effort that the MSA has undertaken in the last three months. The MSA's role in the Regulation is deceptively complex and requires it to develop an institutional expertise in a very short time.

We appreciate all these factors and the role the MSA to support and assist City Council. Our goal is to ensure compliance and cooperation with the MSA while minimizing administrative and regulatory burdens, all while providing accurate performance information to City Council. We therefore offer the following recommendations, which emphasize the following:

- Using only the data that is necessary to evaluate pricing plan performance
- Using data sources that already exist

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- Focusing on accuracy, not precision

We believe these suggestions would help the MSA identify unreasonable financial performance so that Council may confirm and, if necessary, investigate with more precision. Lethbridge is not privy to how the Alberta Utilities Commission (AUC) set plan prices for other owners, and so it is difficult to propose solutions that apply to all owners. Nevertheless, it would be reasonable to treat different suppliers differently because they are different.

Evaluating Pricing Plan Performance

It is possible to simplify the evaluation of Lethbridge's performance because Lethbridge's pricing plan and strategy is to fully hedge its forecasted load. If fully hedged and load is exactly as forecasted, then the utility would be compensated as intended by Council. Other factors and variables have too small of an impact to materially affect total compensation. When financial performance deviates from the original plan, the most likely underlying cause is that the utility did not fully hedge actual load.

This is an important point to make because not all information currently requested by the MSA is relevant. For example, the number of RoLR sites is important to forecast future load and to procure hedges for their collective volume, but the number of RoLR sites is irrelevant when evaluating performance after-the-fact. All energy procurement costs are recovered through a per-kWh charge, and so it makes no difference whether two sites consume 300 kWh each or one site consumes 600 kWh — the utility earns its intended return if it forecasted 600 kWh in sales and fully hedged for 600 kWh.

When actual load is not fully hedged, this is when financial performance will deviate from the original intention. In this case, financial performance is affected by a limited number of variables: the forecast variance of actual load, pool prices, plan price, and hedge strike price. If the utility is under hedged, then the key variables are pool price and the plan price. On the other hand, the key variables are pool price and the hedge strike price, when the utility is over hedged. This is illustrated in the matrix below.

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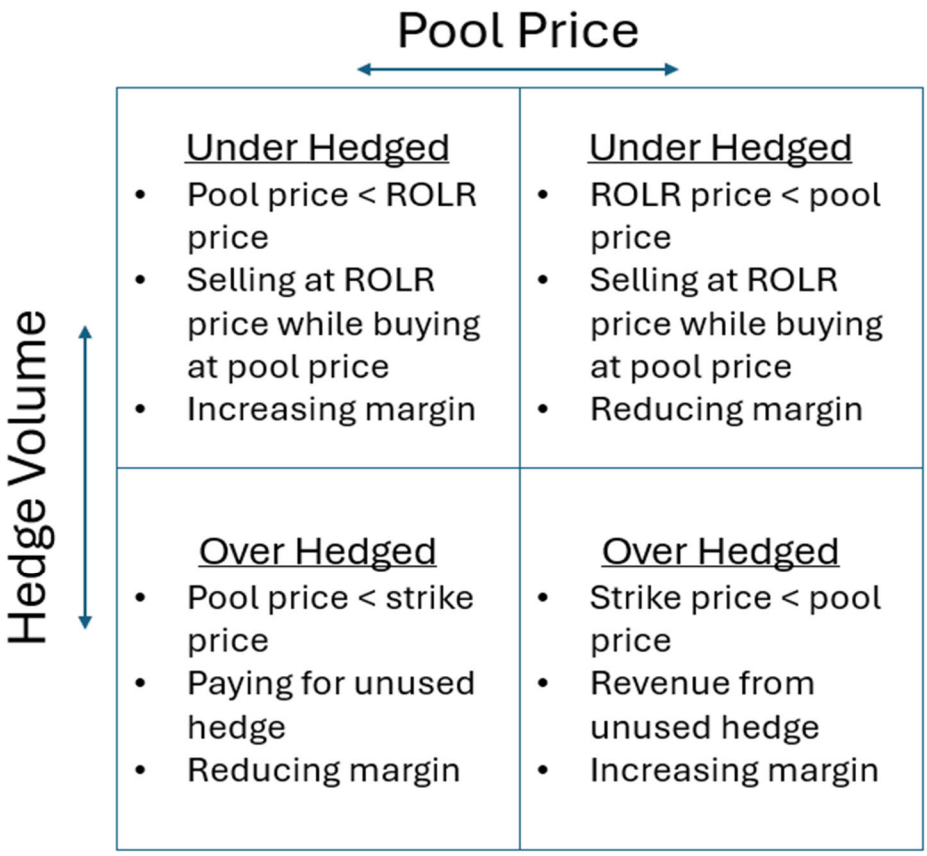

The Wholesale Settlement Information file that is distributed to all retailers (see AUC Rule 021, the System Settlement Code) already specifies reports and information to evaluate pricing plan performance on an hourly basis. The Wholesale Settlement Information file provides load by the hour and is available approximately ten business days after the month. Upon reviewing January data, specifically the first two days, we can provide numerical examples of each square in the matrix above.

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Suppose the utility is over hedged, meaning there is less load than originally forecast, these two scenarios are shown in the bottom row of the above matrix. The utility has over-purchased hedge quantity at the strike price, and financial performance will now depend on whether the strike price is greater than or less than the pool price.

- Bottom right corner of matrix: If pool price is greater than strike price, then there is a financial gain for the utility that is equal to that price difference. This scenario occurred on hour ending 9 of January 2, 2025. The City was hedged for quantity of 12.50 MW with actual load at 12.46 MW, therefore over-hedged by 0.04 MW. The strike price was $70.76 with the pool price being $75.00, meaning the city was paid the difference of $4.24 * 0.04 MW for a total gain of $0.16 for that hour.
- Bottom left corner of matrix: If pool price is less than strike price, then the utility is selling at a loss that is equal to that price difference. This scenario occurred on hour ending 8 of January 1, 2025. The City was hedged for 12.50 MW with actual load of 9.64 MW, leaving it over-hedged by 2.86 MW. The strike price was $70.76, and the pool price was $32.53, meaning the city had to pay the difference of $38.23 * 2.86 MW, for a total loss of $109.28 that hour.

Now suppose the utility is under hedged, meaning there is more load than originally forecast. This would result in the top row (two scenarios) within the above matrix. The utility is forced to sell at the plan price but is paying the pool price and associated fees. Financial performance will depend on whether pool price is greater than or less than the plan price:

- Top left corner of matrix: If pool price is less than plan price, then there is a financial gain for the utility that is equal to that price difference. This scenario occurred on hour ending 1 of January 1, 2025. The City was hedged for quantity of 8.75 MW with actual load of 9.54 MW, leaving unhedged load of 0.79 MW. The pool price was $38.45 with the plan price being $99.75, the difference being $61.30 * 0.79 MW, for a total gain of $48.16.
- Top right corner of matrix: If pool price is greater than plan price, then the utility is selling at a loss equal to that price difference. This scenario occurred on hour ending 11 of January 2, 2025. The City was hedged for 12.50 MW with actual load of 13.50

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MW, leaving 1.00 MW unhedged. The pool price was $106.52 and plan price of $99.75, a difference of $6.77 * 1.00 MW, for total loss of $6.77.

Assuming the utility remained passive and did not acquire more hedges over the term, the pricing plan's performance is only materially affected by the marginal amounts of load that are either over hedged or under hedged. To evaluate performance to date, one can sum the plusses and minuses for all hours, convert this dollar amount to a per-MWh equivalent, and compare it against total compensation in the pricing plan. If the performance sums to a negative $5 per MWh and total compensation was $20 per MWh, then one can conclude that the utility is performing worse than planned, but the impact is not catastrophic. If performance sums to negative $18 per MWh, then this would start to raise concern.

We are monitoring the performance of the pricing plan on this basis, and we estimate that January improved the financial performance by $0.18 per MWh whereas February improved financial performance by $0.14 per MWh, for a net impact of $0.16 per MWh. So far, financial performance is reasonably within the expectations set by Council.

It is also important to note that Lethbridge's pricing plan recovers other associated energy procurement costs, but that this cost (in total) is less $10.00 per MWh. If these costs were reduced, it would increase performance. However, theoretically, they could only be reduced to $0, which would still have a minimal impact on performance relative to the volume risks discussed above. In reality, these are tangible cash expenses to which even a small reduction would be difficult to achieve, with the impact offering no more than slight improvement to performance outcomes. For instance, reducing cost by $5 per MWh would be very optimistic (and not realistic), and a $5 per MWh gain in the context of the volume risks is virtually negligible. To the extent that cash expenses could impact performance, the upside risk is greater. Theoretically, costs can only go down to $0, but the potential for increase is not capped. For this reason, we suggest that there remains a provision for the utility to alert the MSA to this issue if it ever became relevant. However, we do not believe it productive for this to involve regular reporting and to instead address it on a case-by-case basis.

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If a concern is flagged (more likely due to volume variances), then it is appropriate to proceed to the next step: to forecast hourly load to the remainder of the term. We are of the strong opinion that this is a task better suited to the utility because we have experience forecasting default supply load from the start of the Electric Utilities Act. There is an established historical shape to pool prices as well, and this shape can be fitted to publicly available forward prices to complete the full picture to the end of the term. But the point here is that there is little need to undertake this additional work if the results to date do not indicate any strong concerns about financial performance.

We note that page 7 of the MSA's April 7th document requested more information about how acquiring top-up hedges after the price is set might penalize risk management activities. Our concern is that failure to consider the impact of top-up hedges might skew the MSA's evaluation and lead to the wrong conclusions about a re-opener. Suppose, for example,

- The MSA disregards top-up hedges and believes that more load is un-hedged than is really the case.
- The utility is earning a financial gain according to the top right corner of the matrix above, but only because the MSA has not included all hedges.

However, our regulatory framework and pricing plan makes the utility responsible and accountable for keeping the utility financially viable. This means that if load deviates from forecast and exposes the utility to additional risk, it is expected to be proactive and mitigate those risks. One way for the utility to manage risk when under hedged is to acquire additional top-up hedges after the pricing plan has been set. [2]

[2] In our regulatory framework, the utility is responsible and accountable to respond to manage risk, independent of what the MSA might conclude in this exercise. In a different framework, however, we are concerned that the utility might be given the wrong incentives and signals: if the MSA will not consider top-up hedges in the calculation, then the utility might not bother to be proactive

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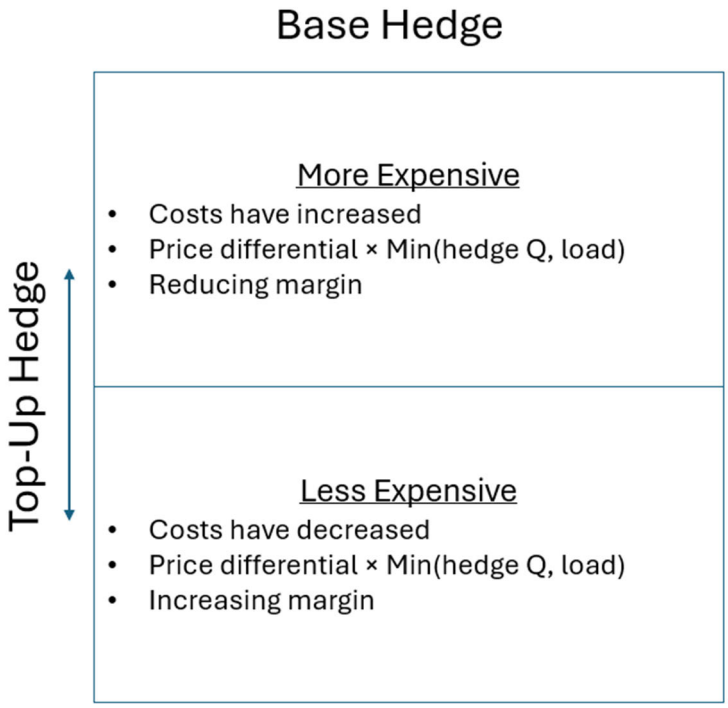
Therefore, the utility might not truly be in the top right corner of the matrix above if the MSA is not considering all the hedges. The utility may have already responded and hedged more. Furthermore, these top-up hedges have an additional impact on financial performance. Top-up hedges affect the inframarginal performance, whereas any load variance impact is already captured by the concept explained in the matrix above.

The inframarginal performance of top-up hedges is illustrated below.



Purchasing top-up hedges can impact financial performance in the above two ways, depending on if the top-up hedge price is more or less than the average of the base hedge price:

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- In the top scenario, the top up hedge price is more than the base hedge price, this gets blended into an average and will raise strike price for all MWh (marginal and inframarginal MW). If the strike price is increased by $1.00 /MWh, this essentially reduces performance of all MW sold by $1.00 /MWh.

  Under this scenario, if the utility is hedged for 10 MW and actual load is 8 MW – then performance on load is reduced by $1.00 /MWh * 8 MW for a total of $8.00 that hour. If hedged for 10 MW and actual load is 12 MW, the impact is $10.00. To the extent that the 2 MW variance has an impact, this impact is captured by the first matrix.

- In the bottom scenario, the top up hedge price is less than the base hedge price, this again gets blended into an average and will reduce the strike price for all MWh. If the strike price is decreased by $1.00 /MWh, this essentially increases performance of all MW sold by $1.00 /MWh, conversely to the above examples.

Conclusions about Pricing Plan Performance

Based on the material provided, our suggestions can be implemented today and offer an accurate measure of performance. It is not precise in the sense that it captures all revenue and cost that would affect total performance, but it is accurate in the sense that it gives a clear picture of what volume risks materialized and how that directly compares to the total compensation in the pricing plan. In other words, the MSA would be able to say in a clear and direct manner that the RoLR will be in a deficit position because the hourly variances are expected to exceed all financial compensation built into the plan. This can be clearly communicated in plain language City Council and our regulatory framework is capable to review the entire performance and revise the plan as required.

This level of detail is both necessary and useful for our City Council. Excessive data collection for precise amounts, or unnecessary duplication of forecasting with unfamiliar terms, does not effectively aid the City Council in their regulatory decisions. The MSA should also appreciate that there are many more moving parts to the RoLR tariff that are not related to

the pricing plan, and that the regulator is ultimately the party responsible for putting everything together and making a public interest decision.

Given the simplicity of our model, we recommend the MSA adopt a high-level review approach for assessing Lethbridge's performance data. Our model enables clear, accurate reporting without extensive data collection or operational adjustments, helping to minimize regulatory burden.

We trust that this information will be of assistance to you. In the future, we encourage more communication in a less formal setting. Currently, we are in the stage of establishing facts, clarifying system settlement capabilities, and explaining how the Lethbridge pricing plan works. At this point, we believe that more frequent conversations will help so that we can better understand each other's perspective and achieve a better, mutually beneficial outcome. Please feel free to contact me if you have any questions or require further clarification.

Sincerely,

<sent by email>

Michael Zimmer
City of Lethbridge

April 11, 2025

Rate of Last Resort Financial Performance Consultation
Market Surveillance Administrator

Attention: **James Conville, Manager**

Re: **Comments on the Market Surveillance Administrators ("MSA") Draft Parameters for Acceptable Financial Performance under the Rate of Last Resort ("RoLR") Regulation (the "Regulation") from Direct Energy Regulated Services ("DERS")**

Dear Mr. Conville:

On March 14, 2025, the MSA published a notice to market participants regarding the MSA's proposed method for determining acceptable financial performance parameters under the RoLR Regulation ("**MSA Financial Parameters**"). That notice included the MSA's response to stakeholder comments received on January 17, 2025, the MSA's DRAFT parameters for acceptable financial performance of RoLR providers and a DRAFT data submissions workbook (collectively the "**MSA Draft Financial Performance Materials**"). DERS, which attended the technical session held on April 1, 2025, and has reviewed the MSA Draft Financial Performance Materials and the MSA Summaries of RoLR Stakeholder Consultation Technical Sessions ("**MSA Summaries**"), has the following comments including an alternative to the MSA Financial Parameters for consideration by the MSA.

The three largest RoLR providers, ENMAX, EPCOR and DERS (collectively referred to as "**RoLR Providers**"), account for **over 95% of the RoLR sites in Alberta**[1]. Each of the RoLR Providers have Energy Price Setting Plans ("**EPSP**") which were approved by the AUC in Confidential Decision 29204-D02-2025 and under which they operate the RoLR in their respective service areas in accordance with the Regulation.

In the MSA Summaries, the MSA stated "The MSA's position is that the rate reopener is intended to provide a mechanism to adjust RoLR energy charges in cases where a RoLR provider's financial performance is significantly impacted by a change in the market for which it was not compensated ex-ante by its approved risk margin. The MSA does not view the purpose of the rate reopener to be to ensure the reasonable return approved by the Regulatory Authority is maintained throughout the RoLR rate term." [emphasis added].

[1] MSA Retail Statistics (2025-01-06)

DERS must clarify that none of the RoLR Providers have either an approved risk margin or approved return margin as part of their EPSPs. It is on this basis that DERS presents its comments and the alternative proposal for measuring financial performance under the Regulation. To support its comments, DERS has provided an adapted version of the MSA's DRAFT Appendix C as *Attachment 1 – DERS Appendix C*. DERS has submitted a confidential version and a public redacted version of its submission.

DERS welcomes further discussions to clarify any of its comments with the hope that an expedient decision can be made regarding the financial parameters.

Sincerely,

Nicole Black

Director, Regulatory Affairs

Isabelle Michaud

Sr. Director, Alberta Regulated Business & Inter-Affiliate Governance

Comments on the Market Surveillance Administrators ("MSA") Draft Parameters for Acceptable Financial Performance under the Rate of Last Resort ("RoLR") Regulation (the "Regulation") from Direct Energy Regulated Services ("DERS")

1. Background on DERS' EPSP

On November 29, 2024, the Alberta Utilities Commission ("**AUC**" or "**Commission**") approved the RoLR Providers' 2025-2028 RoLR Energy Price Setting Plan ("**EPSP**") Negotiated Settlement Agreement[2]. As part of its decision, the AUC found that despite the [redacted]

The AUC must also have regard for the principle that a Regulated Rate Tariff ("**RRT**") must not impede the development of a FEOC market. In this regard, the AUC found that the EPSPs, were acceptable within the framework of the RoLR Regulation are workably compliant with FEOC principles.

The approved EPSP for the RoLR Providers sets out the methodology and calculations that the RoLR Providers have used to determine their RoLR Rate from January 2025 to December 2028. As supported by the RoLR Rate pricing model included as part of the EPSP ("**RoLR Model**") the EPSP is calculated based on each RoLR Provider's regulated rate customer load forecasts and electricity market prices within the price-setting period. [redacted] plus a 0.1 cents per kWh Consumer Awareness Surcharge in accordance with the RoLR Regulation.

As fully described in the EPSP, the RoLR Rate can be defined as follows:

[redacted]

[2] Confidential Decision 29204-D02-2025

The EPSP and RoLR Model as a Reasonable Basis for Assessing Financial Performance

DERS considers that the EPSP and the RoLR Model provide a reasonable basis to develop the measure of acceptable financial performance. It is important to note that the EPSPs approved by the AUC under Confidential Decision 29204-D02-2025 were based on outlook for the Alberta electricity market conditions that were expected to prevail over 2025-2028 including the risk of potential deviations from the wholesale market conditions that were anticipated at the time the RoLR Rate was set. [redacted] As such, it is material movements away from market conditions that were in place at the time the RoLR Rate was determined through the RoLR Model that should be used to trigger the rate reopener and should therefore be measured by the financial performance parameters set by the MSA.

In the MSA Summaries (page 3) the MSA stated that:

> *The MSA's task under the Regulation is to evaluate whether RoLR providers' financial performance is acceptable; it is not to monitor or evaluate whether the assumptions or factors that lead to approval of an EPSP have turned out as expected.*

The MSA further states (page 3):

> *When evaluating whether a RoLR provider's financial performance is unacceptable, the MSA will examine the costs forecasted by the EPSP over the two-year period as well as the assessment of risks to establish if a RoLR provider's financial performance differs significantly from what was anticipated by the EPSP.*

These two statements appear to contradict each other in that the first dismisses the potential to use the EPSPs as a benchmark for acceptable performance while the second statement appears to support DERS' position in that the MSA will be reviewing differences to what was anticipated by the EPSPs.

DERS asserts that a comparison to the assumptions or factors that led to the approval of the EPSPs is a suitable method of assessing acceptable financial performance because the assumptions or factors at the time the EPSPs were negotiated and approved were known by the parties, including the AUC, and were determined to be acceptable. It stands to be reaffirmed that the AUC, the regulator with authority to determine whether the EPSPs are fair and reasonable, ultimately approved the EPSPs.

Acceptable financial performance for the RoLR Providers was a key factor throughout the development of the EPSPs, RoLR Model and the ensuing negotiation. [redacted]

[redacted]

Intent of the Rate Reopener

In DERS' submission to the MSA on January 17, 2025[3], DERS spoke to its understanding of the purpose of the rate reopener and the importance of prudently setting the financial parameters.

> *As clearly set out in the Regulation, the ultimate purpose of the financial performance report set out in s. 11.2 of the Regulation is to assist the AUC in determining whether to trigger a reopener as set out in s. 11.3. A key insight used in the development of the RoLR Rate was the acknowledgement that the lengthy timeframe and complexity associated with any reopener proceeding precludes it from being used regularly to adjust prices. As such, the determination of the AFPP that would trigger a reopener must consider that it should be limited to "break glass" scenarios that materially diverge from the conditions that existed at the time the RoLR Rate was set and that changing the RoLR Rate would address the unanticipated impacts of these material changes. In short, because the AFPP set by the MSA has the potential to result in a reopener it is critical that it not be based on arbitrary or discretionary measures of "reasonability" but should instead be driven by measurable and material changes to market conditions that are required to be addressed by a change to the RoLR Rate.*

It is on this basis that DERS suggests modifications to the MSA Draft Financial Parameters that will align with the EPSP and minimize the potential for inappropriately triggering a rate reopener.

2. Introduction to DERS' Alternative Proposal

DERS proposes modifications to the MSA Draft Parameters for Acceptable Financial Performance as described in the MSA Draft Financial Performance Materials to address concerns regarding the availability of the requested information and suitability of the measures.

Specifically, DERS will respond to the MSA's proposed approach using the Return on RoLR Costs (ROC) and Approved Return on Prevailing Costs (ARPC) described in the MSA Draft Financial Performance Materials as follows:

> 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,

[3] Letter and responses from DERS to MSA questions regarding MSA Stakeholder Consultation on Rate of Last Resort ("RoLR") Acceptable Financial Performance Parameters ("AFPP") Initial Assessment, submitted January 17, 2025

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.[4] ("**MSA Draft Parameter**")

As described further below, in lieu of the ARPC formula provided by the MSA, DERS proposes to use the [redacted] approved in Confidential Decision 29204-D02-2025 ("Decision").

[redacted]

The comparative measure proposed by DERS to assess acceptable financial performance is to use the Markup on RoLR Costs ("**MOC**") which would be calculated like the MSA's proposed ROC calculation but with the modification that the value will include both risk and return in accordance with the EPSP. A ratio of the MOC to the AMPC with a range of 50% to 150% would be deemed reasonable and representative of acceptable outcomes in a market operating as expected at the time the RoLR Rate was determined (i.e., the Valuation Date in the RoLR Model). ("**DERS Draft Parameter**")

As explained further below, the DERS Draft Parameter provides an appropriate and reasonable approach to assessing acceptable financial performance which aligns with the methodology approved in the EPSP for determining the RoLR Rate.

It is not reasonable to create an approach for assessing acceptable financial performance that is not aligned with the EPSPs and doing so may result in unanticipated and inappropriate triggering of the reopener. Further, the data required are readily available and can be provided to the MSA without creating an unnecessary administrative burden on the MSA and RoLR Providers.

3. Explanation of DERS Draft Parameter

The MSA Draft Parameter proposes to, "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.[6]"

As an alternative to the MSA Draft Parameter DERS is proposing to compare the RoLR Provider's MOC to the RoLR Provider's AMPC. A ratio of MOC to AMPC that is less than 50% or more than

[4] DRAFT - Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation, page 1

[redacted]

[6] DRAFT - Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation, page 1

150% may result in a finding by the MSA that the RoLR Provider's financial performance is unacceptable.

Return Margin is Not an Available Financial Performance Parameter

The MSA Draft Parameter which proposes to evaluate a RoLR Provider's financial performance using its ROC and ARPC is not possible under the EPSPs approved as part of Confidential Decision 29204-D02-2025. [redacted] [emphasis added] This holds true for the submission of information applicable to the MSA Draft Parameter to determine acceptable financial performance.

In the MSA Summaries, the MSA stated that, "[i]f a RoLR provider's EPSP includes a single number that serves as both the approved return margin and risk compensation, this number should not be used as ARPC. In such a case, the approved return margin must be estimated, and this estimate must be used to calculate the ARPC."

From the technical session on April 1, 2025, the RoLR Providers understand that the MSA believes it is "technically feasible to estimate the approved return". With respect, DERS maintains that although a return margin could be devised based on a set of assumptions, the results would be subjective and because the assumptions would not have been the subject of Proceeding 29204, the outcome could not be defined as approved by the AUC. DERS understands the other RoLR Providers are aligned with this position. Further, as discussed above, DERS believes there are more appropriate methods of measuring financial performance using the EPSP and RoLR Model.

Approved Markup on Prevailing Costs (AMPC) as the Alternative to ARPC

[redacted]

[redacted]

[redacted]

As such, in lieu of the ARPC formula provided by the MSA, DERS proposes to use the Approved Markup on Prevailing Costs or AMPC which is equivalent to the RoLR Provider's [redacted]

Markup on RoLR Costs (MOC) as the Alternative to ROC

Markup on RoLR Costs or MOC would provide the value for the reporting period that would be compared to the AMPC. The MOC for each reporting period would be calculated as follows:

MOC = Adjusted RoLR Energy Revenue (ARER) – Energy Price-Recovered Costs (EPRC)

Where:

- ARER would be calculated as shown in the "Energy Revenue Data" tab of Attachment 1. [redacted]
- EPRC would be calculated as shown in the "Cost Data" tab of Attachment 1.
    - Costs other than wholesale energy costs are excluded from the calculation [redacted]
    - DERS agrees with the MSA that RoLR Providers have an obligation to manage their business and provide the RoLR to their customers as stated in the MSA Summaries. As prudent operators, RoLR Providers will incur costs of managing the inherent risks of providing the RoLR product to their customers, including but not limited to hedging costs. [redacted] Not including hedging costs means that the actual cost of energy is not being properly captured. It is not realistic to assume that RoLR Providers would not have procured hedges when they were tasked to provide a fixed rate for what is effectively a four-year period. Not including the actual costs including hedging gains or losses would

[redacted]

inaccurately reflect margin (both risk and return) earned by RoLR Providers and the costs of managing energy procurement for RoLR customers.

Interpretation of the Comparison of the AMPC and MOC

DERS proposes to provide the MOC on a cumulative actual basis and compare the Realized MOC to the AMPC. For each reporting period, DERS would provide the financial data shown in Attachment 1 and the MOC would be calculated as reflected in cells AD26:AD27 of the "Cost Data" tab of Appendix 1. The Realized and Forecast MOC as a percentage of AMPC are shown in cells AD29:AD31.

The Realized MOC as a percentage of AMPC for Q1 2025 is 85%. DERS proposes that a MOC of +/- 50% of the AMPC represents an acceptable range of outcomes that could be reasonably expected in a normal market. A Realized or Forecast MOC as a percentage of AMPC outside of this range would reflect a significant change in the market or other changes that may trigger a notification to the AUC under section 11.2(6). Additional data relevant to the calculation of the DERS Draft Parameter would be contained in the Relative Risk Exposure as appropriate.

Forecast of MOC and MOC as a Percentage of AMPC

In the MSA Summaries at page 6, the MSA stated:

> *The MSA's ROC parameter uses forecasts of RoLR providers' revenues and costs to ensure its assessment of financial performance reflects the financial performance of the RoLR provider over the entire two-year RoLR rate term. An assessment of financial performance based only on realized revenues and costs for part of a RoLR rate term may lead to a rate reopener proceeding when none may be warranted, or a rate reopener proceeding not being recommended when a rate reopener may be warranted, considering expected revenues and costs for the remainder of the term. The MSA seeks to avoid this.*

DERS also proposes providing the Forecast MOC for the 2025-2026 RoLR term in order to provide a forward view to the financial performance. The caveat to this proposal is that forecasts change constantly and would only be valid at the time the MSA report is provided.

[redacted] This is another reason the range of acceptable MOC as a Percentage of AMPC of 50% to 150% of the AMPC is appropriate to measure changes that would legitimately warrant a rate reopener. Further, if there was a big change in the Forecast MOC, it would be an indication of significant changes to the market or customer behaviour that were not anticipated at the time the RoLR Rate was determined.

4. Additional Comments on MSA Draft Parameter

Timing of Financial Reporting

In its stakeholder comments to the MSA submitted on January 17, 2025, DERS provided feedback regarding the timing of the financial reporting and reiterates that timing of the reporting should be adjusted as DERS recommended in its submission. As such, the reporting of actuals for the first report should be January 1 to March 31, 2025.

DERS' comments from its January 17, 2025, submission to the MSA were as follows:

> *DERS notes that the reporting periods that will be required are not clearly defined in the Regulation and will require clarification during the consultation process. To elaborate, the Regulation says the following:*
>
> *• The requirement for financial reporting begins January 1, 2025. (s. 11.2(1))*
>
> *• Financial reports will be prepared every 6 months (s. 11.2(1)(b))*
>
> *• The first report is due by July 1, 2025 (s. 11.2(1)(b))*
>
> *• Each report must report on the performance over the preceding 6 months (s. 11.2(2)(a))*
>
> *• The information requested by the MSA must be submitted to the MSA at least one month prior to the preparation of the financial performance report*
>
> *As is evident in the bullets, above, these timelines result in several timing conflicts since:*
>
> - *The MSA would be required to submit its first report to the AUC on July 1, 2025, and is required to include information from January 1 to June 30, 2025.*
> - *However, information from the Providers must be submitted to the MSA at least one month prior to the report being development, which would be June 1, 2025, at the latest; and*
> - *The Providers would need to finalize financial results to the end of the reporting period and reasonable time to gather the required information, which would mean the information available on June 1, 2025 would reasonably be for the period of January 1 to April 30, 2025, at the latest, which is not 6 months of information.*
>
> *To address this issue, DERS proposes the following:*
>
> - *The first financial performance report dated July 1, 2025, will be considered an "interim" report and will include information related to the period of January 1 to March 30, 2025; and*
> - *Subsequent reports will cover the following reporting periods: April 1, 2025 to September 30, 2025, October 1, 2025 to March 31, 2026, etc. with the last reporting period being October 1, 2028 to December 31, 2028.*
>
> *An additional benefit of this proposed cadence and considering the first report as an interim report is that this will provide appropriate time for consultation and development of the final AFPP reporting format.*

The administrative burden of the data requests require rationalization

The granular information that DERS is required to produce should be simple and understandable and not create an unreasonable burden for DERS. On the "Other Data" worksheet, site level data is requested. The MSA has stated that the data will allow them to perform a "volumetric risk calculation". The necessity for this granular, extremely burdensome site level data has not been rationalized as a requirement of the financial performance in the Regulation.

Instead of providing this granular data, DERS has provided a volumetric forecast to the end of 2026 in row 10 of the Energy Revenue Data worksheet of Attachment 1, thereby relieving the MSA from performing financial performance forecasting.

Confidentiality Must be Preserved by the Parameters

The MSA Draft Financial Parameter do not speak to the confidentiality requirements of the EPSPs. The RoLR Providers are aligned in their position that to protect RoLR customers the information provided to the MSA must be kept confidential in accordance with the AUC's ruling on confidentiality[9]. To ensure confidentiality is preserved, DERS proposes that the MSA's report only report on whether the financial parameter was exceeded.

[9] Amended Confidentiality Ruling Exhibit 29204-X0089

April 11, 2025

Rate of Last Resort Financial Performance Consultation
Market Surveillance Administrator

Attention: James Conville, Manager

Dear James Conville:

Re: Comments Regarding the Market Surveillance Administrator's ("MSA") Draft Parameters for Acceptable Financial Performance under the Rate of Last Resort ("RoLR") Regulation from ENMAX Energy Corporation ("ENMAX Energy")

On March 14, 2025, the MSA released its Draft Parameters for Acceptable Financial Performance ("Draft Parameters") pursuant to the RoLR Regulation, including a timeline for stakeholder responses to the draft materials. On March 21, 2025, the MSA published a notice to market participants that set times for technical sessions and extended the deadline for feedback by the stakeholders to April 11, 2025. On April 1, 2025, the MSA coordinated technical sessions, and on April 7, 2025, the MSA released its Summaries of RoLR Stakeholder Consultation Technical Sessions (MSA Technical Session Summary).

ENMAX Energy appreciates the MSA's establishment of the technical session as it assisted in providing further clarity on the draft parameters, and that the MSA is open to revising the Draft Parameters based on the recommendations and feedback of stakeholders. ENMAX Energy believes that the concepts and framework underlying the Draft Parameters are workable, with certain changes outlined in this submission. ENMAX Energy has attempted to provide numerical examples where possible to assist in clarifying why any concerns associated with the specific details of the Draft Parameters are raised.

ENMAX Energy thanks the MSA for the opportunity to provide feedback and comments on the proposed parameters. ENMAX Energy provides the following comments, feedback and suggested alternative regarding the Draft Parameters. ENMAX Energy has submitted a confidential version, and a public redacted version, of this submission. ENMAX Energy is happy to further clarify any points, issues, or concerns arising from this submission. Further, ENMAX Energy would welcome the opportunity to further discuss the next iteration of the Draft Parameters prior to their implementation.

Please contact the undersigned at twilde@enmax.com for further correspondence on this, or related matters.

Sincerely,
[Electronically Submitted]
Trevor Wilde
Director, Regulatory
ENMAX Corporation

Table of Contents

1. Summary of ENMAX Energy's EPSP

On November 29, 2024, the Alberta Utilities Commission ("AUC") approved EPCOR Energy Alberta GP Inc. ("EEA"), ENMAX Energy Corporation ("EEC"), and Direct Energy Regulated Services ("DERS") (Collectively, the "RoLR Providers") 2025-2028 RoLR Energy Price Setting Plan ("EPSP") Negotiated Settlement Agreement.[1]

As part of its determination, the AUC was required to ensure that the risk margin is just and reasonable and to have regard for a separate reasonable return for the RoLR Providers to provide electricity services.[2] In this regard, the AUC found that [redacted]

The AUC is also required to have regard for the principle that a Regulated Rate Tariff ("RRT") must not impede the development of a FEOC market.[4] In this regard, the AUC found that the EPSPs were acceptable within the framework of the RoLR Regulation and are workably compliant with FEOC principles.[5]

The approved EPSP for the RoLR Providers sets out the methodology and calculations that the RoLR Providers have used to determine their RoLR Rate from January 2025 to December 2026 and will use to set the rates for the January 2027 to December 2028 period. The EPSP is calculated based on regulated rate customer load forecasts and electricity market prices within the price-setting period and includes a 0.1 cents per kWh Utilities Consumer Advocate (UCA) consumer awareness surcharge (CAS). The RoLR Rate also includes a risk adder to reflect the incremental risks of providing electricity services in accordance with the RoLR Regulation.

While the AUC approved ENMAX Energy's RoLR Rate for the Calgary service territory, it should be noted that the respective City Councils of the other service territories managed by ENMAX Energy (Cardston, Ponoka, and Red Deer) have approved RoLR Rates that match the RoLR Rate for Calgary.

[1] AUC Decisions 29204-D01-2024 and 29204-D02-2025.
[2] RoLR Regulation, Section 5(1) and Section 6(1)(b)(i) and (ii).
[redacted]
[4] RoLR Regulation, Section 6(1)(d).
[5] AUC Decision 29204-D02-2025, Paragraph 72.

The RoLR Rate for ENMAX Energy (and DERS and EPCOR) is defined as follows:

RoLR Rate = [redacted]

where,

[redacted]

The RoLR Providers worked collaboratively on a joint rate-setting plan and methodology as was contemplated in AUC Bulletin 2024-14. Given the Government's intention for the RoLR Rate to be stable, the time allotted to the RoLR Providers to design and implement an EPSP, and the limitations of the RoLR Regulation to design and implement a more fully market-based solution, procurement-based EPSPs were not considered feasible.[6] As such, despite the understanding that risk mitigation methods would be used, the approved EPSPs were intentionally silent regarding how each RoLR Provider would procure energy and manage its risk.

2. The Expected Return and Risk Curve

As discussed above, the RoLR Providers calculated a RoLR Rate that was based on a 4-year period from January 2025 to December 2028. The period used to calculate the RoLR Rate was an important consideration of the EPSPs as the expectation was that there would be increased net revenues earlier in the term which were forecast to decrease over the EPSP terms, in part, as customers left the RoLR. It is also reasonable to assume that market prices will change over time and that the further out a forecast goes the less reliable it will likely be.

3. ARPC Cannot be Calculated

The MSA Technical Session Summary states on page 2 that: "The MSA's position is that the rate reopener is intended to provide a mechanism to adjust RoLR energy charges in cases where a RoLR provider's financial performance is significantly impacted by a change in the market for which it was not compensated ex-ante by its approved risk margin. The MSA does not view the purpose of the rate reopener to be to ensure the reasonable return approved by the Regulatory Authority is maintained throughout the RoLR rate term." (underline added).

The three largest RoLR providers in Alberta, EPCOR Energy, ENMAX Energy and Direct Energy, are collectively responsible for approximately 95% of the RoLR sites in the province. Each RoLR Provider's EPSP was approved by the AUC. [redacted]

[6] Exhibit 29204-X0099, Paragraph 173.

[redacted]

[redacted] The ARPC is described in the Draft Parameters as:

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

[redacted]

The MSA has stated that: [8] "If a RoLR provider's EPSP includes a single number that serves as both the approved return margin and risk compensation, this number should not be used as the ARPC. In such a case, the Approved return margin must be estimated, and this estimate must be used to calculate the ARPC." [redacted]

[redacted]

[redacted]

[redacted] ENMAX Energy proposes to use an alternative input measure, as described below in the Alternative Proposal section.

[redacted]

[8] MSA Summary of Technical Session, Page 9, released April 7, 2025.

4. Math is Asymmetric

The MSA Draft Parameters rely on comparing the Return on RoLR Cost, or ROC and ARPC using percentages. The use of percentages introduces asymmetry. This is because calculating a percentage relies on division, and the use of costs twice in the calculation, particularly in the denominator, creates asymmetry. This is illustrated in the table below, which shows that the same percentage change in costs results in an asymmetrical change in returns (i.e., a 10% change in costs results in either a 25% or 30% change in return depending on whether costs went up or down). Consequently, a drop in costs will have a higher likelihood of being outside the MSA's proposed thresholds, all else equal. Table 1 below uses the example inputs from the MSA's draft Parameters.[9]

Table 1: Asymmetry Example at $50/MWh

	Revenue ($/MWh)	Cost ($/MWh)	Return Calc = (Revenue - Cost) / Cost	Change in Return Calc = Current Scenario Return - Base Scenario Return
Base Scenario	$ 137.00	$ 50.00	174%	-
Adjust cost only (+10%)	**$ 137.00**	**$ 55.00**	**149%**	**-25%**
Adjust cost only (-10%)	**$ 137.00**	**$ 45.00**	**204%**	**30%**

ENMAX Energy also notes that using a margin expressed as a percentage rather than $/MWh can produce an appearance of a magnified impact. As shown above, a +/-10% change in costs corresponds to a -25% or 30% change in margin percentage, respectively. Applying the same rate of change (i.e., +/-10%) to a higher initial cost base results in a smaller change in return than in the example above. This is illustrated by comparing Table 1 and Table 2, which shows that an absolute change in cost of twice as much (i.e., $10 vs. $5) has half the impact in the change in return (i.e., 15% vs 30%, or 12% vs. 25%).

Table 2: Asymmetry Example at $100/MWh

	Revenue ($/MWh)	Cost ($/MWh)	Return Calc = (Revenue - Cost) / Cost	Change in Return Calc = Current Scenario Return - Base Scenario Return
Base Scenario	$ 137.00	$ 100.00	37%	-
Adjust cost only (+10%)	**$ 137.00**	**$ 110.00**	**25%**	**-12%**
Adjust cost only (-10%)	**$ 137.00**	**$ 90.00**	**52%**	**15%**

The issue of asymmetrical changes in return, and the appearance of a magnified impact, can both be addressed by having calculations based on $/MWh rather than on a percentage. As long as both the values (e.g., ROC and ARPC) use the same units, then comparisons are still possible and

[9] Because the RoLR rate is fixed (i.e., $120.6/MWh for ENMAX Energy) changes to revenue are not relevant, so only changes to costs are shown.

valid. ENMAX Energy addresses this issue in its modified parameter proposal described later in this submission.

5. Exclusion of Hedges

ENMAX Energy appreciates the MSA's position of excluding hedges from the assessment of the financial performance of the RoLR providers if hedging is not used to set the RoLR rate. However, the MSA itself acknowledges that it expects that retailers will manage their risk.[10] To assess the financial performance of a RoLR provider without including the results of hedging activity would exclude an important element of the financial results. Hedging forecast load is a prudent risk reduction technique expected of retailers.

For the reasons explained below, ENMAX Energy would be impacted as excluding hedging activity in the financial assessment would not reflect the RoLR Provider's realized financial performance. Simply put, it is neither fair nor reasonable to assess financial performance when a legitimate tool with financial implications is excluded from the assessment.

Example of the impact of settled hedges on the assessment of financial performance.

A hypothetical simplified example (Table 3 below) shows the impact of excluding hedge results when assessing financial performance of a RoLR provider. In this example, in January 2025, a RoLR provider will charge its customers $120/MWh, which is the RoLR rate approved by the AUC. The RoLR provider forecasts 50MW of load for January. In December 2024, to manage its risk, the RoLR provider enters into forward contracts for delivery in January for 50MW at $80/MWh, the prevailing market price at the time. January arrives; its customers consume the exact energy forecast but actual AESO pool prices in January average $30/MWh.

With the above example, the financial results would show $6,000 revenue in January from RoLR customers. The total AESO pool price costs for January are $1,500, making the energy margin in January $4,500 if the hedge results are excluded from the assessment. Based on $6,000 in revenue, this is a 75% energy margin. However, if the result were to include prudently procured hedges of $2,500 are included, the energy margin actually experienced by the RoLR provider is $2,000, or approximately 33%.

Table 3: Example calculations for including and excluding hedging costs for assessment[11]

A	$120	/MWh Energy Rate for January
B	50	MW Forecast Load for January
C	$80	/MWh forward price in December for January Flat delivery
D	50	MW Actual Load in January

[10] MSA Summary of Technical Session, released April 7, 2025.
[11] Note this is an illustrative example so excludes some inputs such as tax effects.

E	$30	/MWh Pool Price in January
A x D	$6,000	Revenue from Customers in January
D x E	$1,500	AESO Charges for energy in January
	$4,500	**Energy Margin if excluding result of hedges**
(E - C) x D	($2,500)	Realized Hedge Revenue (Cost) in January
	$2,000	**Energy Margin if including result of hedges**

This example shows the impact of including hedges when assessing financial performance in one month only, however the same logic is applicable for the total duration of the hedges.

In addition, it wasn't until the publication on March 14, 2025, of the Draft Parameters that the MSA identified for the first time that hedges not used for setting the RoLR Rate would be excluded from the assessment of financial performance. In this example, the *ex post facto* exclusion of all hedges would be unfair to the RoLR Provider that had prudently managed its risk exposure through hedges.

Excluding hedging activity from the MSA's assessment of financial performance is not only unfair to the RoLR provider, it also does not reflect the expected behaviour of retailers in Alberta.

Excluding hedges from the assessment of financial performance misrepresents the actual financial performance of the RoLR provider; it also does not reflect the behaviour of rational and prudent retailers in Alberta.

Prudently incurred hedges should be included in the MSA assessment of financial performance.

The MSA stated it "may clarify the nature of the hedging cost data and record submissions in the parameters and is interested in hearing recommendations from RoLR providers in written submissions."[12] ENMAX Energy appreciates the opportunity to provide feedback on this. ENMAX Energy finds it inconsistent to not use hedging as an input, or driver for a reopener but to track this information.

[12] MSA Technical Session Summary, Page 14, released April 07, 2025.

As noted above, ENMAX Energy acknowledges the MSA's concern about including hedges in the assessment of financial performance. A blanket statement about including *all* hedges in the assessment of financial performance could lead to unintended consequences where a RoLR Provider enters risky hedges, for example hedging multiples of their forecast load. However, excluding hedging from the MSA calculations disincentives prudent risk management by the RoLR Providers.

The MSA has the tools available to assess a RoLR providers' hedges and whether they are prudent or not, based on information known at the time the hedges were entered into. Data such as market clearing prices, forward contracts, and forecast volumes are planned to be or can be part of the semi-annual reporting to the MSA. This data can be assessed by the MSA to determine whether hedges were the driver of financial performance being outside acceptable financial parameters.

Inclusion of hedges in the financial assessment will allow RoLR providers to responsibly manage their risk exposure, which is reflective of how the retailers in the Alberta market operate and also the expectation of the RoLR providers when the EPSPs were developed and the RoLR rates were set.

6. RoLR Providers Expect to be Frequently Outside the MSA's Acceptable Financial Parameters as Currently Drafted

Regardless of whether risk compensation is included or not, the combination of how the ROC & ARPC are calculated, and the narrow threshold for acceptable performance of +/-10% used to compare them for potential reopener purposes leads to the thresholds being exceeded in nearly all likely scenarios. This makes it an ineffective tool for assisting the MSA or any other parties, including regulatory authorities, in determining if financial performance is acceptable or if the approved EPSP is operating as intended.

Given the narrow threshold, small variations in actualized cost of energy or forecasted cost of energy or risk in the ROC will lead to acceptable performance being outside the band. ENMAX Energy believes that quantitative criteria as currently defined will be triggered in all but a limited set of circumstances. This lowers the value of having an initial quantitative check or filter, before relying on the qualitative judgement.

The MSA's draft methodology includes the revenue associated with risk (via the ARPC), but if that risk doesn't materialize to the same magnitude as a cost (i.e., the risk materializes less than was expected in the RoLR Provider's EPSP), the MSA's draft methodology fails the quantitative test and may trigger a reopener.

ROC With No Hedging, and Energy Prices as Forecasted in APRC, but cost of risk lower than forecast		
A	$137	/MWh Total Energy Charge
B	$117	/MWh Adjusted RoLR Energy Revenue
C	$50	/MWh AESO Charges
D	$25	Cost of Risk and Additional Energy Cost Incurred over Prevailing Term
E	$1	/MWh Consumer Awareness Surcharge remittance
F = C+D+E	$76	/MWh EPRC
G = (B-F)/F	54	% ROC

The above example, which is based in part on Appendix B of the MSA's Draft Parameters,[13] highlights that even if energy prices were perfectly forecast throughout the EPSP term (i.e., $50/MWh), due to the EPSP's risk not fully materializing in the period being assessed (in this example risk materializes as $25/MWh of cost as opposed to the $40/MWh included in the APRC calculation), the ROC at 54% would still be outside the MSA's acceptable performance thresholds. If energy prices deviate relative to the forecast, as would be expected with a multi-year load forecast, the likelihood of falling outside the MSA's acceptable performance thresholds is heightened.

7. Two-year versus Four-year Term

The RoLR providers' approved EPSPs calculates a RoLR Rate [redacted] with a +/-10% adjustment occurring after the first two-year term. [redacted] The MSA's proposal to use a two-year calculation will impact the energy charge calculations as well as the calculation of incremental risks. This holds true because the prevailing market prices that were available during the price-setting period showed lower pricing for the first two-year term relative to the second two-year term. Both were considered when assessing the electricity market prices prevailing during the relevant price-setting period as per Section 11(1) of the RoLR Regulation.

Using only a two-year term would fail to address the up to +/- 10% adjustment scheduled to occur after the first two-year EPSP term. Given that a four-year term was incorporated into the design of ENMAX Energy's RoLR Rate, new inputs would be needed to accommodate the MSA that deviate from the inputs used in ENMAX Energy's approved EPSP.

[13] DRAFT Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation, Appendix B, released on March 14, 2025.

8. RoLR Providers Should Provide Certain Forecast Parameters

Section 2 of the Draft Parameters states that the MSA will forecast monthly values for ARER and EPRC to the end of the two-year RoLR rate term. Section 2.3 elaborates on this and states that the MSA will develop models to produce monthly forecasts of ARER and EPRC, and that 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." The MSA also indicated that it will provide 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.

The MSA and ENMAX Energy will have access to the same electricity futures prices and realized ARER and EPRC. However, ENMAX Energy submits that it is load data, not site data, that is directly associated with ENMAX Energy's financial performance for the purposes of the MSA's assessments.[14] While ENMAX Energy understands the importance of a load forecast requirement, the MSA will be provided the daily RoLR load by provider.

ENMAX Energy proposes that the RoLR providers perform the load forecast and provide the forecast monthly load to the MSA as part of the semi-annual data submission. Other forecast data, including electricity forward prices, are available to the MSA to apply uniformly to each RoLR provider.

9. Treatment of the Consumer Awareness Surcharge

The RoLR Regulation requires RoLR providers to collect from customers a 0.1 cents/kWh CAS, which is included in the RoLR energy rate. In Section 2.2 Energy Price-Recovered Costs (EPRC) of the MSA's DRAFT Parameters, the MSA indicates the calculation of the EPRC includes "Consumer Awareness Surcharge remittance". Page 12 of the April 7 MSA Summary of Technical Sessions states in part "RoLR providers should allocate CAS remittances by the month in which amounts were remitted to the Minister."

In ENMAX Energy's view this line item in the MSA's calculation should not be the amount remitted to the Minister, but rather the amount charged to customers. To provide the amount remitted to the Minister does not reflect the amount recognized in revenue and would result in an overstatement of the RoLR providers financial performance.

The amount charged to customers is 0.1 cents/kWh multiplied by consumption. This calculation is shown on a customers' bill, and based on standard accrual accounting practices this amount is recognized as revenue for the RoLR provider at the time it is billed to customers. However, it is only after customers have paid their bill that RoLR providers remit funds to the Minister. There is no way to know exactly when a customer will pay their bill, and unfortunately in many cases

[14] All aspects of a retailer's energy financial performance are based on load, not sites. The RoLR rate is multiplied by energy consumption, not site count; AESO pool statements are based on energy consumption, not site count; risk mitigation is based on energy consumption, not site count.

for the RoLR providers, customers do not pay their bills. Therefore, the CAS amount remitted to the Minister is less than the amount recognized as revenue.

To avoid over-stating the financial performance of RoLR providers, the MSA's EPRC should be calculated using the CAS charged to customers, not the CAS remitted to the Minister.

10. Information Requested by the MSA by May 1, 2025

The MSA requires RoLR Providers submit information to the MSA by May 1, 2025.[15] Most of the information, such as records provided by the regulatory authority approving the RoLR rate, the approved EPSP, and calculations showing how the energy charge is calculated, are readily available and can be provided by ENMAX Energy by the deadline.

However, it is unclear why the MSA needs the ARPC or any other calculations by May 1, 2025, rather than including these calculations in the June 1, 2025, submission of the first set of data. This May 1 deadline artificially creates a critical path timeline for completing the MSA's stakeholder consultation on the criteria and data for assessing the financial performance of RoLR providers, which are still being developed, and which may evolve based on stakeholder feedback of the draft data requirements and parameters.

ENMAX Energy requests the MSA set the deadline for this submission to be June 1, 2025, to align with the submission of data and to reduce time constraints on the MSA's ongoing consultation.

11. The MSA Financial Reports are Confidential Until Filed with the AUC

While the MSA has indicated it will maintain confidentiality of records provided to it by the RoLR providers, it is not clear whether the MSA will maintain confidentiality of the semi-annual financial reports on the financial performance of RoLR providers.

Page 10 of the April 7 MSA Summary of Technical Sessions states in part "Section 6(1) of the Market Surveillance Regulation requires the MSA keep records it receives confidential except in specific circumstances. The MSA will keep the information it receives from RoLR providers confidential; where required, the MSA will follow the process set out in the Market Surveillance Regulation." This pertains to records provided to the MSA by RoLR providers, but it does not address the MSA's financial performance reports.

Section 11.2(6) of the RoLR Regulation states that "if the financial performance report shows that the owner's financial performance falls outside the parameters set by the MSA, the MSA must notify the regulatory authority." In Section 11.3, the RoLR Regulation sets out that upon receiving a notification from the MSA, the regulatory authority shall initiate a rate reopener proceeding, and that within 30 days the RoLR provider must submit to the regulatory authority the MSA

[15] Section 7: Start of Term Data Submission Requirements of Appendix A: Technical Submission Requirements and Process of the draft material released by the MSA on March 14, 2025

determination report, any financial reports and any other information the RoLR provider considers relevant.

The RoLR Regulation does not require or permit the MSA to disclose or to publish any financial performance reports when they are prepared, or at any time thereafter. If the financial performance report shows financial performance that falls outside the parameters set by the MSA, the MSA must notify the regulatory authority. It is only after a rate reopener proceeding is initiated that the MSA's financial performance report is submitted to the AUC. Further, the regulation specifies that the RoLR provider, not the MSA, is responsible for submitting the MSA's report to the AUC.

Additionally, section 5.1 of the MSA regulation gives the MSA access to records required to prepare the RoLR financial performance reports under the RoLR regulation, but section 6 clearly requires the MSA to keep these records confidential unless disclosure is permitted or required under the MSA regulation, another enactment or the rules of the Commission or the Court. Disclosure of these records is not permitted or required under the RoLR regulation, and disclosing the financial performance report prepared using these confidential records is likewise not permitted or required, except as described in section 11.4 of the RoLR regulation.

In ENMAX Energy's view, the correct interpretation of the MSA's duties and obligations under the RoLR regulation is that, while the MSA has an obligation to prepare financial performance reports under section 11.2 of the RoLR regulation, it is neither required nor permitted to disclose or publish these reports. The only disclosure of these reports is made by a RoLR provider under section 11.3 of the RoLR regulation if a rate reopener proceeding is initiated. This process, which is laid out in the RoLR Regulation, recognizes the confidential and commercially sensitive nature of the information in the financial performance reports and makes it clear that the reports are not disclosed unless a reopener is triggered. Additionally, a RoLR provider may also choose to file a motion with the Commission for confidential treatment of a financial performance report under AUC Rule 001.

The MSA has not provided any indication or confirmation regarding treatment of its semi-annual financial performance reports. However, for the reasons set out above, ENMAX Energy's view is that the RoLR Regulation and the MSA Regulation do not permit the MSA to disclose or publish these reports. If the MSA publishes anything semi-annually about the financial performance of the RoLR providers, ENMAX Energy expects that it will be a similar format to the MSA's regular compliance reports.

12. Clarity in Naming Conventions

Related to the above is how information may be treated once it is published, either publicly or confidentially. [redacted] Therefore, ENMAX Energy recommends that the terminology associated with the financial parameters be changed to ensure that there is no confusion of

certain values as being return when that is not the case. For this reason, ENMAX Energy recommends changes to the following two terms:

- Approved Return on Prevailing Costs, or ARPC, be renamed to Differential Approved for Regulatory Purposes (**DARP**)
- Return on RoLR Cost, or ROC, be renamed to In-term Component of Billed Amounts for Reference (**ICBAR**)

13. Data Requirements

In the draft Appendix C Data Submission Workbook distributed by the MSA on March 14, 2025, there are four main categories of data requested by the MSA in tab "Other Data". The first three categories of data, i) the daily energy consumption including energy losses and unaccounted for energy, ii) the daily RoLR site count, and iii) hourly RoLR energy consumption, are readily available and can be provided to the MSA. The fourth component relates to site data, including site ID, start and end date which will be overly burdensome to produce and the MSA has provided no indication of how the data will be used.

Providing site ID, start and end dates, without any link to the consumption for each individual site, does not give the MSA any more information than providing the total daily energy consumption and the total daily consumption. Further, daily site IDs have no direct link to financial performance, as any actual and forecast financial performance relates to energy consumption, not site IDs. ENMAX Energy does not process its contract data in this manner and therefore cannot provide the data as requested.

ENMAX Energy respectfully requests that the MSA remove the requirement to provide site ID, start and end date.

14. Modified Proposal

ENMAX Energy recommends the following proposed changes to the MSA's draft parameters. ENMAX Energy has included specific references and details of how these changes would apply.

ENMAX Energy proposes three modifications to the MSA's proposed draft parameters:

- **DARP** (Formerly the Approved Return on Prevailing Costs, or ARPC)
- **ICBAR** (Formerly the Return on RoLR Cost, or ROC)
- Acceptable Performance Thresholds

These are discussed further below.

DARP

The MSA's proposed ARPC is intended to be the benchmark value for which the MSA will compare the ROC and is based on approved costs. As proposed by the MSA:

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

ENMAX Energy proposes three changes for this parameter:

1. Change the name to DARP. See section 12 for more information on the rationale for this change.
2. Not have a denominator for symmetry reasons and instead provide this value as $/MWh, which ICBAR will also use to remain comparable. See section 4 for more information on the rationale for this change.
3. Rely on the differential between approved in-term revenue and costs rather than the approved return margin. See section 3 for more information on the rationale for this change.

General Form

DARP = Differential between approved in-term revenue and costs, on a per MWh basis

ENMAX Energy specific interpretation of the general DARP based on its EPSP:

DARP = [redacted]

ICBAR

The MSA's proposed ROC is intended to reflect the actual and updated forecast of the difference in revenues and costs which the MSA will compare to the ARPC.

> ROC = (Adjusted RoLR Energy Revenue – Energy Price-Recovered Costs)/ Energy Price-Recovered Costs.
>
> Where,
> Adjusted RoLR Energy Revenue = (Energy charge – Non-prevailing term energy charge components) * Total consumption billed to customers.
>
> Energy Price-Recovered Costs = AESO charges + Financial hedge charges, if applicable + Bad debt expense, if applicable + Income tax / Payment in lieu of tax + Consumer Awareness Surcharge remittance + Approved non-energy costs, if applicable.

ENMAX Energy proposes three changes for this parameter:

1. Change name to ICBAR. See section 12 for more information on the rationale for this change.
2. Not have a denominator for symmetry reasons and instead provide this value as $/MWh, which DARP will also use to remain comparable. See section 4 for more information on the rationale for this change.
3. Rely only on the in-term revenues and costs which would be inclusive of hedging gains/losses and costs, if any, regardless of whether hedging costs were included in an EPSP or not. See section 5 for more information on the rationale for this change.

General Form

ICBAR = Differential between realized in-term revenue and market price, on a per MWh basis.

ENMAX Energy specific interpretation of the general ICBAR based on its EPSP:

ICBAR = [redacted]

Acceptable Performance Thresholds

The MSA stated in its draft parameters, that "An ROC more than the ARPC + 10% or less than ARPC - 10%, may result in a finding the owner's financial performance is unacceptable."

ENMAX Energy proposes the acceptable performance thresholds be 0.5x -1.5x of the DARP. That is, an ICBAR more than the DARP + 50% or less than DARP - 50% may require further review. Expanding the band still allows the MSA to retain its discretion on the qualitative elements but prevents the quantitative threshold from being triggered in nearly all circumstances. This approach will give MSA a sense of current market risk and return margin and allow MSA to better assess RoLR performance relative to current market conditions.

15. RRE

ENMAX Energy supports the MSA continuing to have the RRE be a part of the financial parameters and reopener consideration. ENMAX Energy agrees that uncompensated risk that creates an adverse situation for the RoLR should trigger a re-opener.

Appendix A: Section 3.3.1 of AUC Decision 29204-D02-2025, footnotes omitted

3.3.1 Sufficiency of information regarding risk margin and reasonable return

48. The Commission must ensure the risk margin is just and reasonable and have regard for a separate reasonable return for the RoLR Providers to provide electricity services.

49. The *ROLR Regulation* states that the risks covered by the risk margin may include risks associated with energy-related costs and non-energy-related costs that the Commission considers reasonable and prudent. As the application does not address non-energy costs, the Commission will only provide findings regarding the risks associated with energy-related costs. The *ROLR Regulation* also requires the Commission to have regard for the principles that a regulated rate tariff must allow for a reasonable return for providing electricity services and that the risk margin must not be considered part of that return.

[redacted] The Commission also considers that specific elements of risk compensation in the EPSPs were negotiated, and the NSA reflects adjusted inputs to the calculation of risk compensation.

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April 11, 2025

By email
Market Surveillance Administrator
Suite 600, 440 2nd Avenue SW
Calgary, AB T2P 5E9

Attn : James Conville, Manager, Retail and Rate of Last Resort

RE: Comments on Market Surveillance Administrator's ("MSA's") Draft of the Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation ("Draft Parameters")

This letter is in response to the MSA's March 14, 2025 request for stakeholder feedback on the MSA's Draft Parameters and draft Appendix C Data Submissions Workbook ("Data Submissions Workbook").

EPCOR Energy Alberta GP Inc., in its role as a general partner of EPCOR Energy Alberta Limited Partnership, ("EEA"), appreciates the opportunity to continue to provide input and looks forward to continuing to work collaboratively with the MSA to develop fair and appropriate parameters for Acceptable Financial Performance. EEA acknowledges that the development of common parameters for all providers aligned with the RoLR Regulation is complex and appreciates the additional context provided at the technical session hosted by the MSA on April 1, 2025. EEA remains committed to working together to ensure that both the MSA and Rate of Last Resort ("RoLR") providers achieve the policy objectives set out by the Government of Alberta in the RoLR Regulation – namely, providing price stability to customers for a four-year period, with wholesale market risk being absorbed by the RoLR providers. EEA supports the MSA's mandate to create appropriate performance metrics for the RoLR providers that are distinctly approved and measurable, and will avoid triggering a rate-reopener unnecessarily.

The regulatory process to approve EEA's four-year Energy Price Setting Plan ("EPSP") was lengthy, complex and fair. The approved EPSP sets a RoLR rate that provides price stability to customers for a four-year period (a set rate for the two-year period with a cap of +/-10% for the following two-year period), and fair compensation for the risk the RoLR providers take in delivering this commodity to customers during this time period.

Return Margin

As applied for and approved in confidential Decision 29204-D02-2025, the Alberta Utilities Commission ("AUC") approved the negotiated joint RoLR provider EPSP [redacted].

[redacted]

The market-based price as described above [redacted] is the approved basis for acceptable financial performance for a RoLR provider in setting a fixed two-year energy price at the valuation date of the RoLR Model. EEA considers the approved EPSP to be a reasonable basis from which to develop the measure of acceptable financial performance. [redacted]

[redacted]

EEA recognizes that the MSA has specifically noted on page 9 of the summary of the technical sessions that the return must be estimated. Considering the discussion provided above and the inherent risks associated with estimates rather than distinct and transparent values in the RoLR Pricing Model, this could result in unanticipated outcomes and unnecessarily trigger a reopener. EEA respectfully requests the MSA reconsider this requirement. In consideration of this, EEA has proposed a modified methodology for a calculation of the Approved Return on Prevailing Costs ("ARPC"), suggested to be renamed to Approved Markup on Prevailing Costs ("AMPC") and subsequently the Return on Costs ("ROC") suggested to be renamed to Markup on Costs ("MOC") in the recommendations below. EEA believes would these produce

[1] 29204-D02-2025, para 53
[2] Decision 2228-D01-2017, section 25

a similar comparable and measurable outcome as proposed in the Draft Parameters, and aligns with the measures used in the approved EPSP.

Risk Compensation

In the calculation of the RoLR fixed price, the RoLR Pricing Model includes consideration for risk compensation. The AUC, in decision 29204-D02-2025 stated the following regarding risk compensation for RoLR providers;

> "The ROLR rates resulting from the NSA are higher than the current competitive retail offerings for comparable contracts. The Commission recognizes that the legislated ROLR structure is unique and imposes new, incremental risks that are specific to ROLR Providers, which all else being equal, would result in initial ROLR rates that are higher than current fixed rates offered by unregulated competitive providers. Any rate-setting process, let alone the first such process, to price this incremental risk on this novel product is going to come with an inherent level of uncertainty."[3]

In setting the RoLR rate, the components that were presented and approved by the AUC included both a market-based component, and a risk premium component. The risk premium component [redacted] reflects the discrete and incremental risks of providing a fixed price for electricity for a two-year term, and for the following two-year period with a cap of +/- 10% from the original term's price. EEA suggests to the MSA that the RoLR providers' financial performance should be assessed on the market-based component of the rate build-up only. The risk premium component should not be considered as part of the provider's performance as currently shown in the Draft Parameters, as these risks continue throughout the remainder of the four-year EPSP term.

Financial Hedge Charges

In section 2.2.2 of the Draft Parameters, it is stated that where procurement is not used to set the RoLR price, it cannot be included in the calculation of Energy Price-Recovered Costs ("EPRC"). EEA respectfully submits that without the inclusion of hedging costs, the EPRC costs would not appropriately measure whether the risks of a market-based pricing methodology have materialized. [redacted]

[3] 29204-D02-2025 para 46

In particular for EEA this would be most appropriate as EEA has entered into a load following agreement with a supplier that bundles procurement, additional costs and hedging risk into a fixed procurement price, with no distinct breakdown of EPRC components and is inclusive of all components above. EEA's supplier receives and pays the AESO bill, while EEA pays an all-in price for energy on $/MWh basis. Because procurement was not a component of the build-up of the RoLR rate, each RoLR provider was given the autonomy to procure as they felt was most appropriate for their organization through the removal of procurement as a requirement of price setting in the RoLR Regulation. Under this procurement structure, EEA is not able to provide this information as identified in the Draft Parameters.

Other Data Submission Requirements

Section 2.3 discusses the process by which the MSA anticipates forecasting the ARER and EPRC for the remaining months in the two-year term. EEA has some concerns on how the MSA expects to produce forecasts with the limited data requested. EEA proposes that the RoLR providers are more appropriately resourced to provide forecasts of site counts and consumption using longer-range historical data including seasonality, and to provide any hedging costs for a more accurate forecast of financial performance over the remaining term.

EEA is also looking for additional clarity on the value of requirement 4 in A.6 of the Draft Parameters, and how it adds value in the forecasting process. Because this dataset would be significant for RoLR customers served by EEA and may not be easily available in the format proposed by the MSA, there is potential for significant cost and time to build a report that can produce this information.

Recommendations

In the sections below, EEA has provided alternative calculation methodologies that align more closely to the EEA's approved EPSP:

1) **Start of Term Data Submission Requirements**

   In Appendix A.7 of the MSA Draft Parameters, the benchmark for the evaluation process includes a calculation which specifically requires an approved return margin to determine the ARPC. EEA is suggesting an adjustment to the name ARPC to AMPC and subsequent calculation using a similar example as provided in Appendix B of the Draft Parameters with values from EEA's approved RoLR Pricing Model;

2) Assessment of Acceptable Financial Performance

To align the results to the benchmark in the proposed AMPC provided above, EEA suggests there be some consideration for amendments to factors of the proposed ROC (proposed by EEA to be renamed to MOC) in consideration of alignment with the AMPC and in consideration of EEA's approved EPSP. Suggestions for revisions to the Adjusted RoLR Energy Revenue ("ARER") and Energy Price-Recovered Costs ("EPRC"), which make up the ROC/MOC, are shown below.

ARER

In the current calculation of ARER, the MSA has contemplated the removal of Non-prevailing term energy charges, however based on the discussion of Risk Compensations above, EEA would suggest that the entirety of the risk premium should be removed from the energy charge (ie. RoLR Rate) in the calculation of energy revenues resulting in the calculation of the ARER as follows;

ARER = (Energy charge – Risk premium component of energy charge – Consumer Awareness Surcharge) x Total consumption by customers

In calculating consumption, EEA also suggests that the description of consumption volumes more appropriately reflects *usage* by customer rather than amounts *billed* by customers. There is a lag in billing for usage and the number of bills processed can vary each month due to the number of bill processing days resulting in a difference in billed volumes as compared to usage volumes in a period.

ERPC

EEA would like to suggest that the ERPC should consider the following in RoLR Providers actual costs which would include the following cost buildup;

AESO Charges as described in the Draft Parameters
Net hedging costs (revenue) for all providers
Trading platform charges, fees, etc.
Other electricity procurement costs
Credit costs
Bad debt expense (recovered through energy charge)
Income tax/Payment in lieu of tax
Consumer Awareness Surcharge (***usage*** x rate rather than remittance)
Approved non-energy costs
EPRC

Aligned with the discussion on the inclusion of financial hedges above, this would be a challenge as EEA has entered into a load following agreement that bundles procurement, additional costs and hedging risk through a fixed procurement price with no distinct breakdown of EPRC components. This would result in an equal assessment of financial performance regardless of individual procurement arrangements and thresholds for acceptable performance could be measured at a threshold above or below the ARPC.

In providing information on the Consumer Awareness Surcharge, EEA also suggests that the description and requirements more appropriately reflect calculation based on *usage* by customer rather than amounts *remitted* as there is a lag in due to billing, payments and then subsequent remittance.

Timing

As for the timing and contents of the RoLR providers' initial report, EEA would suggest that an interim template structure be developed in conjunction with this process and timing be determined to ensure that the MSA is able to achieve the timelines set out by the regulation. With the MSA having a report deadline of July 1, 2025 in the regulation, a truncated period of three months of information would, in EEA's submission, be more appropriate for this initial report as it would provide finalized financial reporting and also align with an external financial reporting period. Once the initial condensed period information has been provided to the MSA and reported on, further refinements to the reporting structure should be considered to ensure it is appropriate in the longer-term timeframe.

EEA would like to reiterate that it is critical for the MSA to consider EEA's RoLR Pricing Model and its variables are treated as confidential for EEA by the Alberta Utilities Commission, and should be extended to the MSA process.

EEA appreciates the MSA's consideration to the information shared above to ensure all parties can achieve the policy objectives and deliverables put forward by the Government of Alberta in the RoLR Regulation.

I look forward to our next discussion and please feel free to contact me at (780) 412-3694 if you have any questions.

Sincerely,

[Electronically Submitted]

Nadia Bayda
Senior Manager, Regulatory and Business Analytics
EPCOR Energy Alberta GP Inc.