

## NOTICE TO MARKET PARTICIPANTS

March 14, 2025

**RE: Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation**

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### BACKGROUND

On December 20, 2024 the MSA initiated its stakeholder consultation on *Rate of Last Resort Regulation* MSA activities in accordance with the *Rate of Last Resort Regulation* (AR 262/2005) (RoLR Regulation).<sup>1</sup> The MSA released an Initial Assessment consisting of questions pertaining to: measures of financial performance, acceptable financial performance parameters (AFPPs), and the MSA's financial performance reporting.<sup>2</sup>

The MSA solicited comments from stakeholders on its Initial Assessment. Four owners (Rate of Last Resort providers, or RoLR providers) and the Utilities Consumer Advocate provided comments, all of which are published on the MSA's website.<sup>3</sup> The MSA did not receive comments from any rural electrification associations (REAs).

### THE DRAFT PARAMETERS FOR ACCEPTABLE FINANCIAL PERFORMANCE

In accordance with its Stakeholder Consultation Process, the MSA has released its draft of the AFPPs (Draft Parameters) on the MSA's website, [here](#).

In establishing the Draft Parameters, the MSA considered all responses received from stakeholders. In addition, the MSA considered the energy price setting plans (EPSPs) established by all RoLR providers, including those who did not provide responses to the MSA's Initial Assessment. The MSA provides its response to stakeholder comments below, with reference to the Draft Parameters.

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<sup>1</sup> *Rate of Last Resort Regulation* (AR 262/2005), sections 11.2 and 11.3.

<sup>2</sup> [Notice Re: MSA stakeholder consultation on Rate of Last Resort Regulation MSA activities](#), December 20, 2024.

<sup>3</sup> [Notice Re: MSA stakeholder consultation on Rate of Last Resort Regulation MSA activities – January 17 stakeholder responses](#), January 29, 2025.

## **Measure of Financial Performance**

### ***Stakeholder Comments***

The MSA requested comments on what measures should be used for financial performance, with reference to eight attributes of the measure of financial performance established by the MSA.<sup>4</sup> Stakeholders generally agreed that financial performance:

- should be measured only in respect of the RoLR energy product and should exclude non-energy related revenues and costs;
- should be measured on an actual and forecast basis with considerations for excluding or identifying the impact of certain RoLR energy charge components on financial performance; and
- should be measured using consistent structures for all RoLR providers.

Some stakeholders suggested that RoLR providers should calculate the measure of financial performance and provide only their calculated values to the MSA, while others suggested the MSA should calculate the measure of financial performance based on a standardized data set submitted by RoLR providers. Stakeholders also suggested that lags in data availability may impact the MSA's ability to assess six months of realized financial performance data at certain times.

Stakeholders had varying views regarding what financial performance should measure. Views included that the MSA's assessment of financial performance should:

- measure whether the EPSP is performing as intended in the pricing model; or
- at minimum compare commodity procurement costs with incurred commodity costs; or
- be specific to each RoLR provider.

One stakeholder suggested that the measure of financial performance could not be addressed until the trigger for a reopener proceeding under the RoLR Regulation is established.

### ***MSA Response to Stakeholder Comments***

The MSA agrees with stakeholders that financial performance should be measured only in respect of the RoLR product, should generally exclude non-energy related revenues and costs, be based on an actual and forecast basis, and maintain a consistent structure for all RoLR Providers. These are achieved through the Return on RoLR Costs (ROC) parameter described in the Draft Parameters.<sup>5</sup>

The ROC parameter is intended to measure the return a RoLR provider will earn on RoLR costs recovered using RoLR energy revenues over the prevailing RoLR rate term. RoLR providers will adjust their energy revenues to only include revenues intended to recover costs incurred over the

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<sup>4</sup> [Notice Re: MSA stakeholder consultation on Rate of Last Resort Regulation MSA activities](#), pp. 3-4.

<sup>5</sup> Draft Parameters, pp. 2-6.

prevailing RoLR rate term to ensure that financial performance is measured only over the prevailing RoLR rate term. The ROC uses all actual data available to the date of the financial performance assessment and a forecast of RoLR providers' financial performance to the end of the prevailing RoLR rate term.

The MSA also agrees financial performance should be measured consistently across RoLR providers, and that the measure of financial performance should account for the approved EPSP. Under the current regulatory construct, Regulatory Authorities are not bound to approve any particular EPSP or regulated rate tariff (RoLR tariff). For this reason, where a RoLR provider's Regulatory Authority has approved recovery of non-energy costs through the energy charge, the ROC calculated for that RoLR provider will include those costs.

The MSA accepts that financial performance should account for the EPSP return margin approved by RoLR providers' Regulatory Authorities. For this reason, the calculated ROC will be compared to the return margin approved by the relevant Regulatory Authority, with necessary adjustments. If the ROC is outside  $\pm 10\%$  of the approved return on prevailing costs the MSA may find the RoLR provider's financial performance is unacceptable.

RoLR providers will calculate actual revenue and costs used as inputs to the ROC and provide all calculations to the MSA in a standardized form. RoLR providers will be required to submit such data for all months where data is available to the RoLR provider.

RoLR providers also said it would be unnecessary to provide data to the MSA at a distribution service area level. The MSA accepts the practical difficulty of doing so, and so will assess financial performance under each energy charge offered by the RoLR provider; RoLR providers who only offer a single energy charge will make a single submission to the MSA, while RoLR providers who offer multiple energy charges will make submissions for each energy charge offered.

## **Acceptable Financial Performance Parameters (AFPPs)**

### ***Stakeholder Comments***

The MSA requested comments on the AFPPs the MSA should establish to assess RoLR providers' financial performance, with reference to five attributes.<sup>6</sup>

Stakeholders variously said the magnitude of the AFPPs should:

- be tied to material changes in market conditions relative to conditions at the time of price setting; or
- involve an assessment of realized risk relative to the approved risk margin; or
- not be the same magnitude for 'positive' financial performance as for 'negative' financial performance as RoLR providers face asymmetric risk.

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<sup>6</sup> [Notice Re: MSA stakeholder consultation on Rate of Last Resort Regulation MSA activities](#), p. 4.

One stakeholder suggested the use of a reporting structure similar to AUC Rule 005 reporting.

Stakeholders generally agreed that consistent AFPPs should be used for all RoLR providers, though concerns about the practicality of this were expressed.

Stakeholders differed on whether multiple AFPPs were preferable. Some stakeholders expressed that a single AFPP would reduce regulatory burden, while others stated that multiple AFPPs may be necessary to account for a forecast outlook of financial performance.

Some stakeholders recommended the use of cohort assessments of financial performance between RoLR providers, while others suggested RoLR providers should be able to make submissions to the MSA on relevant factors.

### ***MSA Response to Stakeholder Comments***

The MSA agrees that the AFPPs should generally be consistent across RoLR providers. As stakeholders noted, differences between RoLR providers make applying any parameter consistently practically challenging. In addition, RoLR providers may experience different risks that impact their financial performance which are, by their nature, unforeseeable. To ensure consistency, the ROC metric is calculated on the same basis for all RoLR providers, as far as possible given the differences in EPSPs. In addition, data collected from all RoLR providers will inform the forecast ROC.

The Relative Risk Exposure (RRE) parameter examines whether a particular RoLR provider is exposed to a risk that its approved EPSP does not provide compensation for. The risks identified may be realized or forecast. In their submissions to the MSA, RoLR providers must identify any such risks and quantify the impact of those risks on their financial performance to the end of the RoLR rate term and provide supporting records and data.

If the MSA determines the RoLR provider faces uncompensated risk that will significantly impact their financial performance, the MSA may find the RoLR provider's financial performance is unacceptable.

## **Financial Performance Reports**

### ***Stakeholder Comments***

The MSA sought stakeholder views on whether the MSA should produce reports more than twice-yearly, reports should be confidential, and any content other than the MSA's assessment of financial performance which should be included.<sup>7</sup>

Stakeholders generally preferred twice-yearly reporting, while some stakeholders suggested additional reports in response to significant market changes could be published as needed. Stakeholders variously expressed concerns about publication of commercially sensitive

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<sup>7</sup> [Notice Re: MSA stakeholder consultation on Rate of Last Resort Regulation MSA activities](#), p. 4.

information, suggested the MSA is not required to make its reports public, and suggested the release of the MSA's reports would support transparency.

One stakeholder stated that the MSA's reports should only include historical and forecast financial performance data, while others suggested the reports could also include results expressed as provided in Rule 005 reporting, MSA assessments of forward prices, or relevant factors that inform the interpretation of financial performance metrics.

### ***MSA Response to Stakeholder Comments***

The MSA will provide financial performance reports by January 1 and July 1 each year, as specified in the RoLR Regulation.

While the MSA understands stakeholder concerns regarding confidentiality of commercially sensitive information, the MSA views transparency in its reporting as key. The MSA may publish financial performance reports, in compliance with the *Market Surveillance Regulation AR 266/2007*.

### **DATA SUBMISSION REQUIREMENTS**

RoLR providers will be required to make submissions to the MSA in accordance with requirements specified in the Draft Parameters. Data submissions must be submitted using the Appendix C Data Submissions Workbook (Data Submissions Workbook). A draft of the Data Submissions Workbook can be found on the MSA's website [here](#).

### **REQUEST FOR STAKEHOLDER COMMENT**

The MSA is requesting written comment on the MSA's Draft Parameters and draft Data Submissions Workbook from interested participants. Please provide written responses to the MSA by 5:00 p.m., March 28, 2025. Written responses can be submitted to [MSAStakeholderConsultation@albertamsa.ca](mailto:MSAStakeholderConsultation@albertamsa.ca). The MSA intends to publish written responses shortly after this deadline.

Should you have any questions regarding this process or require clarification on the MSA's Draft Parameters and draft Data Submissions Workbook, contact [MSAStakeholderConsultation@albertamsa.ca](mailto:MSAStakeholderConsultation@albertamsa.ca). This constitutes the second public comment period in accordance with the MSA's [Stakeholder Consultation Process](#).

The MSA may amend the Draft Parameters or draft Data Submission Workbook based on written comments received. Failing that, the MSA will release its Decision following the receipt and publication of written comments.